



Central Bank of Kenya

Monetary Policy Committee CEOs Survey

March 2021



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1. BACKGROUND

The Central Bank of Kenya (CBK) introduced a Chief Executive Officers' (CEOs) Survey in March 2021, with the objective of capturing information on top firms' perceptions, expectations and decisions and supporting key policy decisions, including monetary policy. The Survey sought CEOs views on selected indicators including business confidence/optimism, previous quarter business activity, and outlook for business activity in the near term. The survey also sought to establish the key internal and external factors that could influence the business outlook, and strategic priorities over the medium-term.

The Survey targeted CEOs of key private sector organizations including members of the Kenya Private Sector Alliance (KEPSA) and the Kenya Association of Manufacturers (KAM). The sectors covered by the Survey included agriculture, mining and energy, manufacturing, wholesale and retail trade, hotels and restaurants, information and communications technology (ICT), transport and storage, real estate, pharmaceuticals, building and construction, and finance and insurance. These sectors account for over 74 percent of Kenya's GDP.

2. INTRODUCTION

The inaugural MPC CEOs Survey was conducted between March 9 and 24, 2021. The Survey inquired from CEOs their levels of confidence/optimism in the growth prospects of their companies and sectors, as well as on the growth prospects of the Kenyan and global economies over the next 12 months. In addition, the Survey interrogated CEOs on business activity in 2021 Q1 compared to 2020 Q4, and their expectations for economic activity in 2021 Q2.

The Survey also sought to obtain the key concerns and significant factors likely to affect business expansion/growth in the next one year (March 2021 – February 2022), as well as the strategic directions and solutions to address their key challenges over the medium term (March 2021 – February 2023).

The Survey was a supplement to the Monetary Policy Committee (MPC) Private Sector Market Perceptions, Flower Farms and Hotels Surveys. The findings provided important input and information to the MPC in its March 2021 meeting. This report provides a summary of the findings of the Survey.

3. SURVEY METHODOLOGY

The Survey targeted CEOs of 130 private sector firms comprising members of the KAM and KEPSA through questionnaires administered via email, and through a direct online survey. The total number of respondents to the survey was 55, resulting in a response rate of 42 percent. The respondents were from the manufacturing, agriculture, financial services, professional services, real estate, media, transport and storage, wholesale and retail trade and tourism sectors. Most of the respondents (86 percent) were privately owned businesses, while the rest were publicly listed companies and government-owned businesses. A large proportion of the respondents (67 percent) had a turnover of over Ksh 1 billion in 2019. In terms of employment, 50 percent of the respondents employed between 100 – 500 people, while 33 percent of respondents employed over 500 people.

The responses were aggregated and analyzed using frequencies, percentages and simple averages where appropriate.

4. KEY HIGHLIGHTS OF THE SURVEY

The key takeaways from the Survey include:

- A majority of CEOs were optimistic about higher growth prospects for their companies and sectors in the next 12 months. This optimism was mainly due to the rollout of the COVID-19 vaccines and the continued reopening of the economy which signals gradual recovery. The higher company and sector growth prospects were strongest in the services sector which experienced slowdown in business activity during the pandemic.
- Business leaders indicated a recovery in business activity in 2021 Q1 relative to 2020 Q4 mainly reflected by increased demand/orders and production volumes. Demand, production volume and sales growth were higher especially for the agriculture and service sector firms, the latter having experienced the largest contraction in output in 2020 Q2 and Q3.
- Most CEOs expected an increase in business activity in 2021 Q2, particularly with regard to demand/orders, production volumes and growth in sales of goods and services.

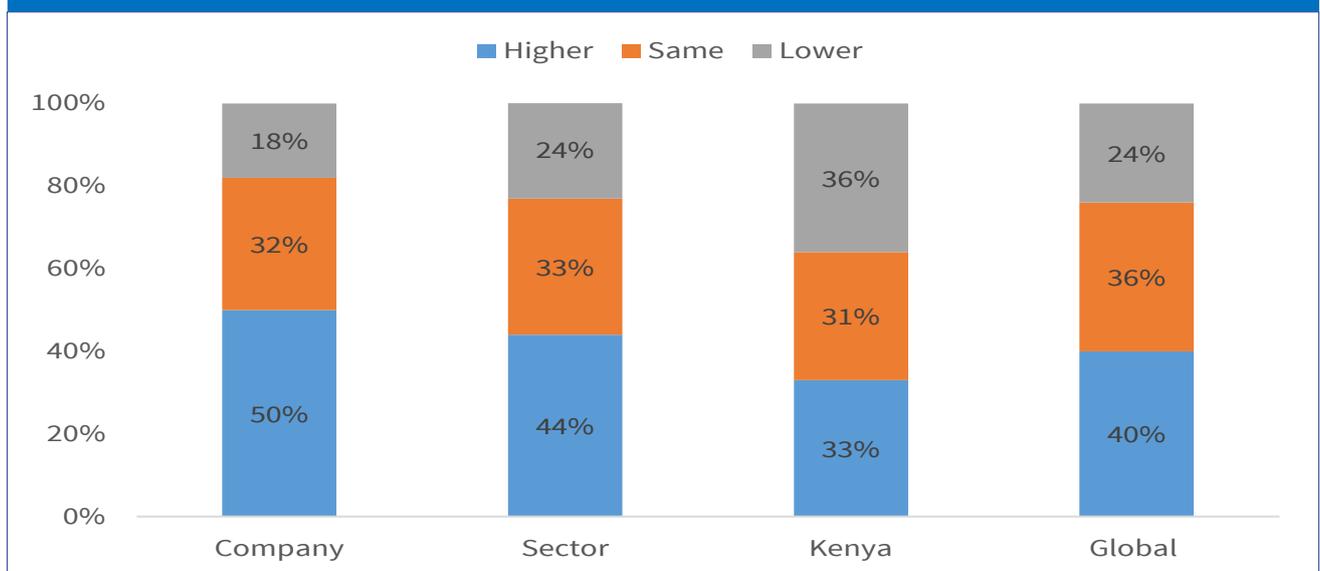
- The economic environment, COVID-19 pandemic and the business environment were highlighted by CEOs as significant factors that could constrain growth/expansion of businesses over the next year. The business leaders indicated that internal cost containment, improved efficiency and innovation and skills retention were key internal factors that could strengthen their outlook. Externally, respondents indicated that an improved regulatory environment/tax regime, a stable economic environment and easing of the cost of doing business could strengthen the outlook of their firms over the same period.
- The main concerns for CEOs were a challenging business environment, economic performance and the effects of the COVID-19 pandemic. Business leaders indicated that they would leverage on their firms' top strengths, which they identified as technical capability/skilled workforce, a strong brand, and effective supply chains, to manage costs/risks, lobby with government and digitize/innovate to address their most urgent concerns.
- In terms of strategic direction over the next three years, business leaders plan to expand into new markets, improve brand/value proposition of their current products and develop new products through horizontal diversification and vertical value addition.

5. BUSINESS CONFIDENCE/OPTIMISM OVER THE NEXT 12 MONTHS

The Survey assessed the CEOs optimism in the growth prospects of their companies, sectors, and Kenyan and global economies over the next 12 months. Respondents were optimistic about higher growth prospects of their own companies and sectors, on account of the rollout of the COVID-19 vaccines and the continued reopening of the economy which points to gradual recovery (**Chart 1**). The optimism was mainly driven by the services¹ and agriculture sectors due to buoyancy experienced by some firms thereby allowing for unlocking of opportunities to expand following the pandemic. However, some respondents did not expect a change in the growth prospects of their companies or sector over the next 12 months citing the continued effects of the pandemic, low purchasing power following reversal of the COVID-19 tax relief measures and the effects of recent increases in fuel prices.

The Survey revealed that business confidence in the growth prospects for the Kenyan and global economies were mixed. The respondents expect the roll out of COVID -19 vaccine to boost confidence and business activity. However, business confidence in the growth prospects for the Kenyan economy was tempered by the anticipated increase in political activity which could slowdown economic activity

Chart 1: The growth prospects over the next 12 months (percent of respondents)



¹Services includes: professional, media, wholesale/retail trade, financial, hospitality and IT/Telecommunications sectors

due to a possible wait and see approach by private sector clients. This concern was mainly raised by respondents in the manufacturing sector. On the global economy, although the vaccine rollout signalled a gradual recovery, respondents were concerned that shifts in global demand patterns could impact on consumption and thus affect global growth.

6. PERCEPTIONS ON BUSINESS ACTIVITY IN 2021 Q1 COMPARED TO 2020 Q4

The Survey sought CEOs perceptions on business activity in the first quarter of 2021 compared to the fourth quarter of 2020. The Survey results point to a pick-up in business activity indicators in 2021 Q1 compared to 2020 Q4 on account of increased demand/orders and production volumes as some

businesses began to see a recovery (**Chart 2**). Demand/orders were especially higher in the agriculture and services sectors (**Chart 3**) while production was particularly higher in services and manufacturing sectors (**Chart 4**).

The number of full-time employees however remained the same for majority of respondents with some saying staff were still on pay cuts.

Most respondents indicated that the prices of goods and services purchased was higher compared to 2020 Q4. The increase was mainly reported by respondents in the manufacturing sector, and was attributed to increased cost of raw materials, rise in fuel prices and higher logistical costs especially relating to shipping. The prices of goods and services sold remained the same for a majority of respondents who reported operating at an optimum level irrespective of demand factors.

Chart 2: Perceptions on business activity indicators in 2021 Q1 compared to 2020 Q4

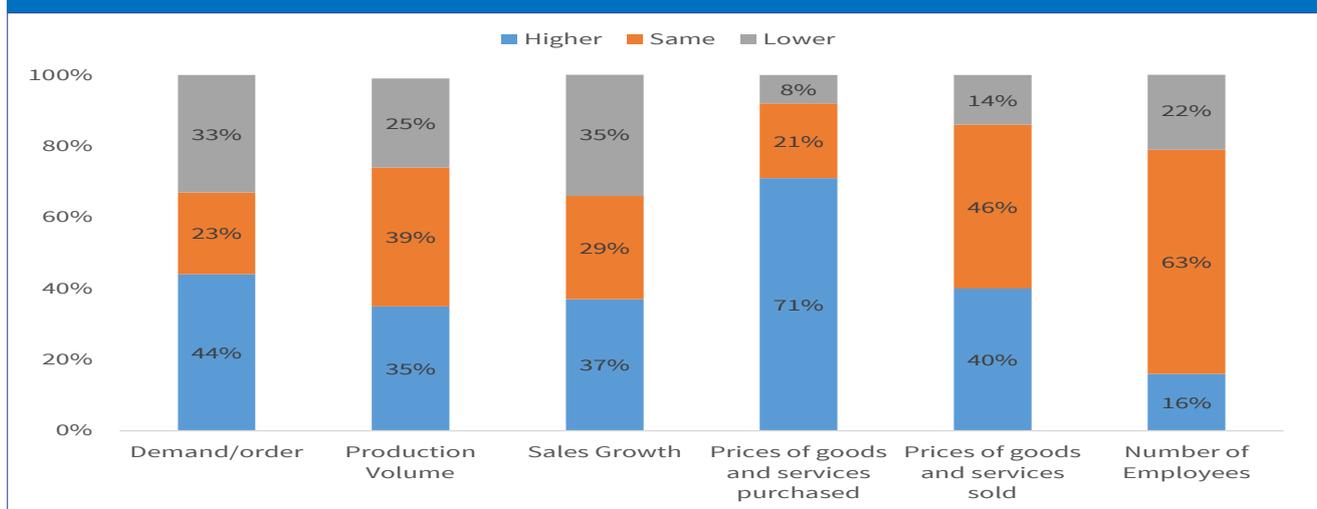


Chart 3: Perceptions on demand orders in 2021 Q1 compared to 2020 Q4 by Sectors

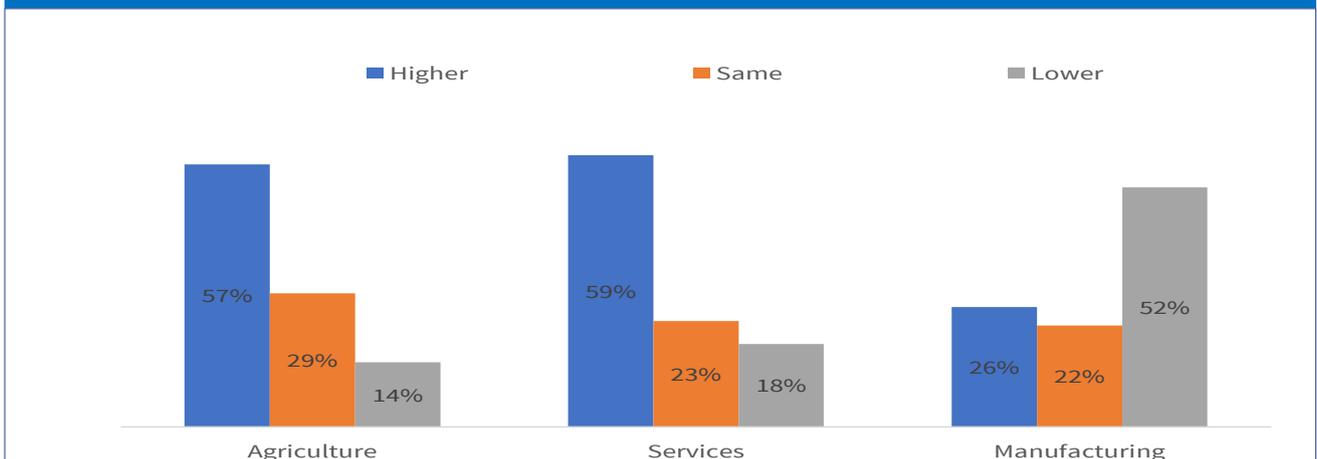
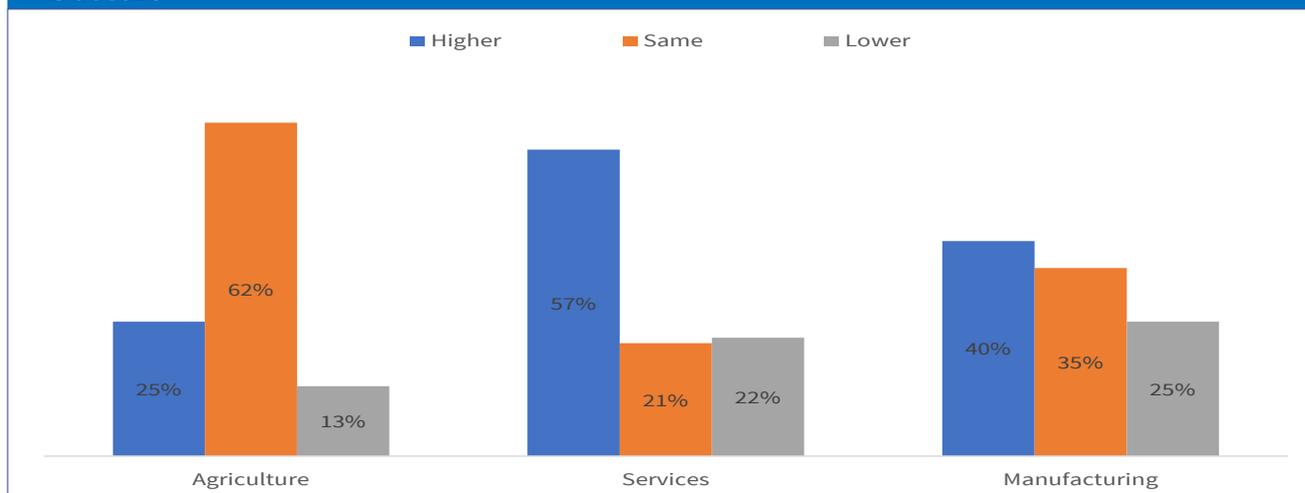


Chart 4: Perceptions on production volume in 2021 Q1 relative to 2020 Q4 by Sectors

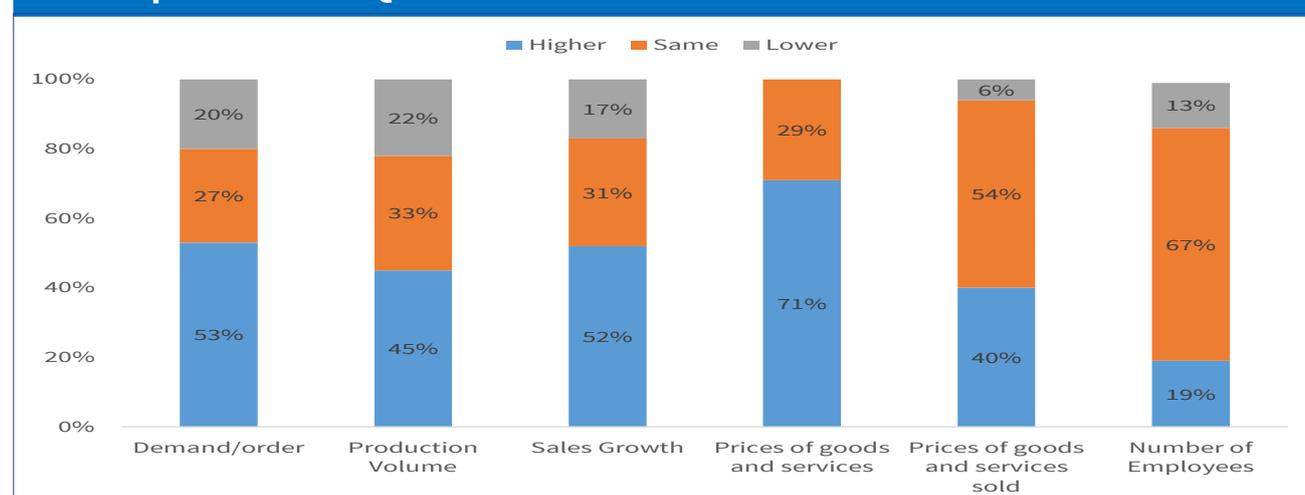


7. OUTLOOK FOR BUSINESS ACTIVITY IN 2021 Q2 COMPARED TO 2021 Q1

The Survey sought CEOs expectations of business activity in the second quarter of 2021 relative to the first quarter. Most CEOs expect an increase in business activity in 2021 Q2 with higher demand/orders, production volume and sales growth (**Chart 5**). Respondents in the services sector were the most optimistic with majority expecting increases in demand and growth in sales as schools and other institutions resume normal operations. Nevertheless, respondents expected increases in the prices of goods and services purchased/sold mainly due to uncertainties relating to the third wave of the COVID-19 pandemic and increases in the cost of raw materials. Most respondents expected the prices of goods and services sold to remain the same based on current circumstances. However, some of the respondents expected higher prices, due to

increases in prices of several commodities and taxes that also went up alongside petroleum products, as these have effects on logistical costs. The prices of goods and services purchased were expected to increase for a large proportion of the respondents due to uncertainties relating to the third wave of the COVID-19 pandemic and the increase in fuel prices. On the number of employees, most respondents expected that this would remain at the same level as most firms did not have plans to recruit in the near term. Nonetheless, some respondents expected a lower number of full-time employees mainly due to the residual impact of the COVID-19 pandemic (continued layoffs) and also the effects of digitization (redundancy).

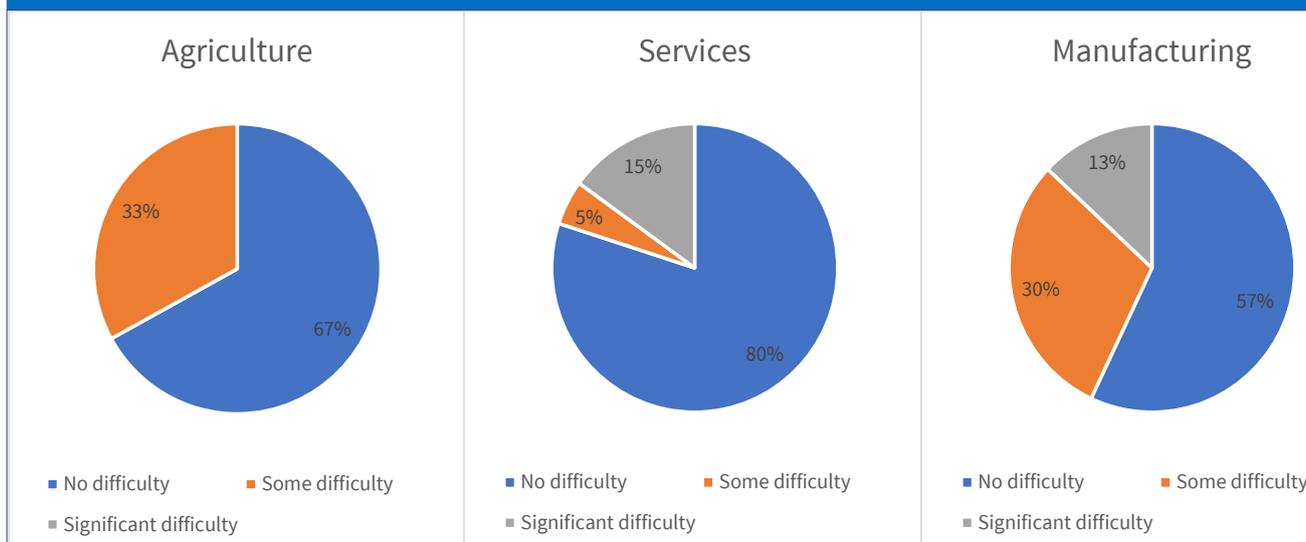
Chart 5: Views on expected change in business activity indicators in 2021 Q2 compared to 2021 Q1



In terms of operating capacity, the Survey findings show that most respondents were operating below capacity and could increase production if there was an unexpected increase in demand/orders (**Chart 6**). For the few firms that foresee some difficulty in meeting unexpected increase in demand, some of the reasons given include: supply chain challenges

with delays in importation; shipping delays due to COVID-19 disruptions; and high staff attrition during the pandemic which had affected operating capacity requiring resourcing support from regional or global networks.

Chart 6: Potential level of difficulty in meeting increased demand or sales



8. FACTORS CONSTRAINING EXPANSION OVER THE NEXT 12 MONTHS

The survey sought to establish from the CEOs the factors that could constrain the growth and/or expansion of firms over the next 12 months. Across all sectors, respondents indicated that the factors that could constrain business expansion include economic environment (inflation, economic downturn/sluggish economy, etc.) which ranked highest followed by the COVID-19 related challenges and the business environment (cost of doing business) (**Chart 7**).

For respondents in the manufacturing sector, factors relating to the business environment, regulatory environment and consumer demand ranked highly (**Chart 8**). Business financing was a significant factor for respondents in the services and manufacturing sectors, whereas economic environment and taxation were significant factors raised by respondents in the agriculture sector.

Chart 7: Significant factors that constrain firms' expansion

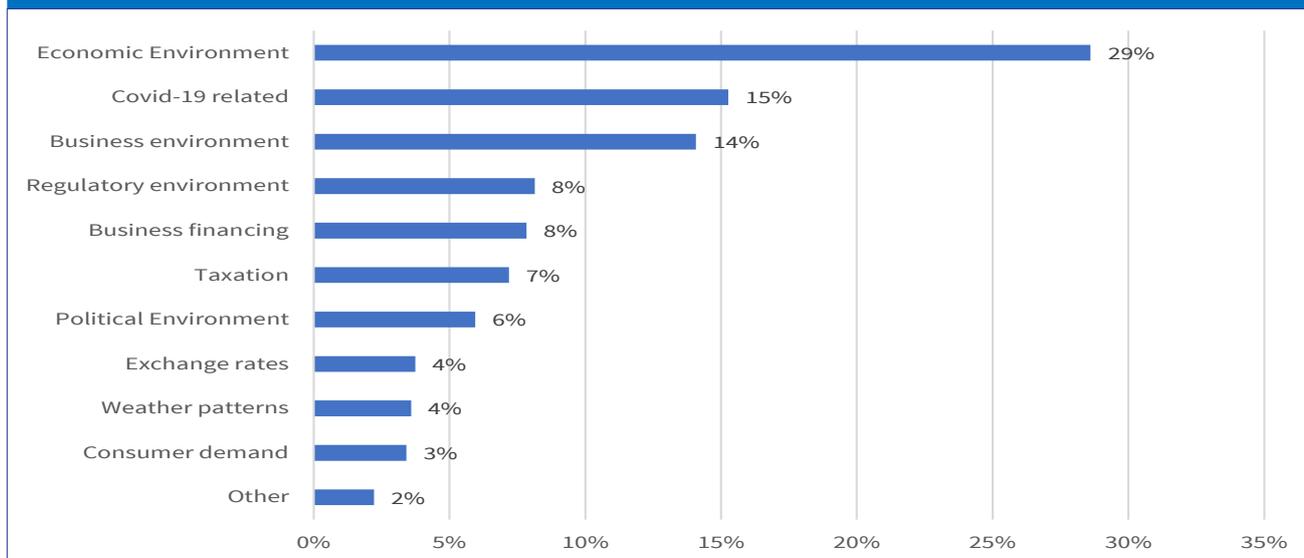
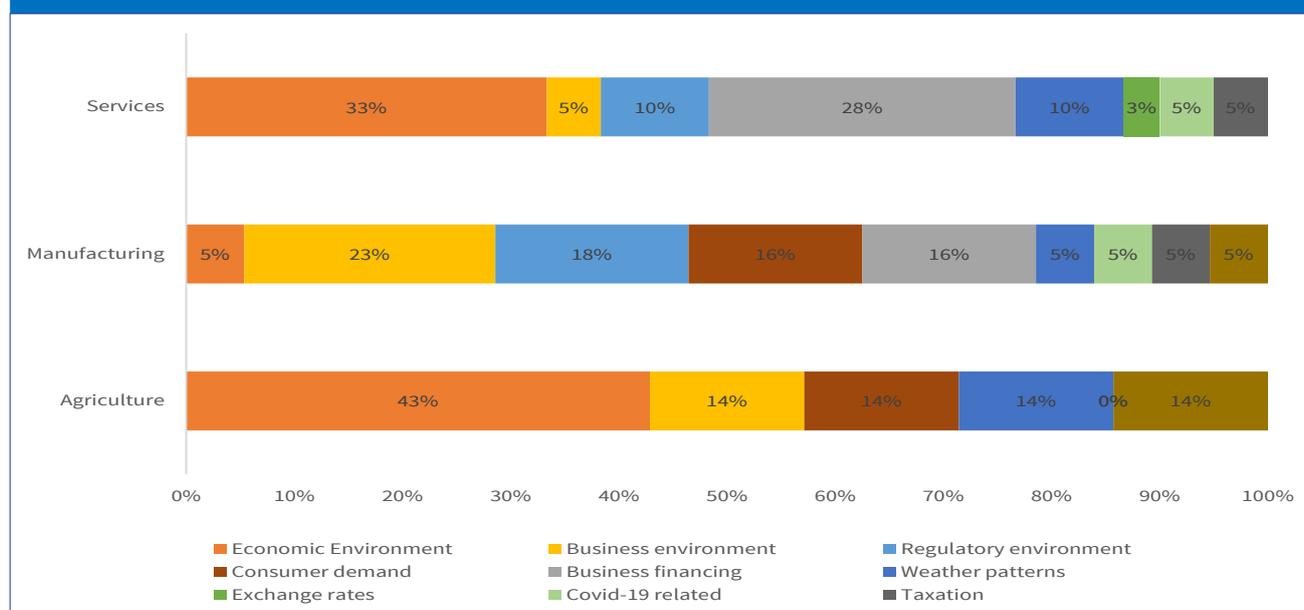


Chart 8: Significant factors that constrain firms' expansion by Sectors

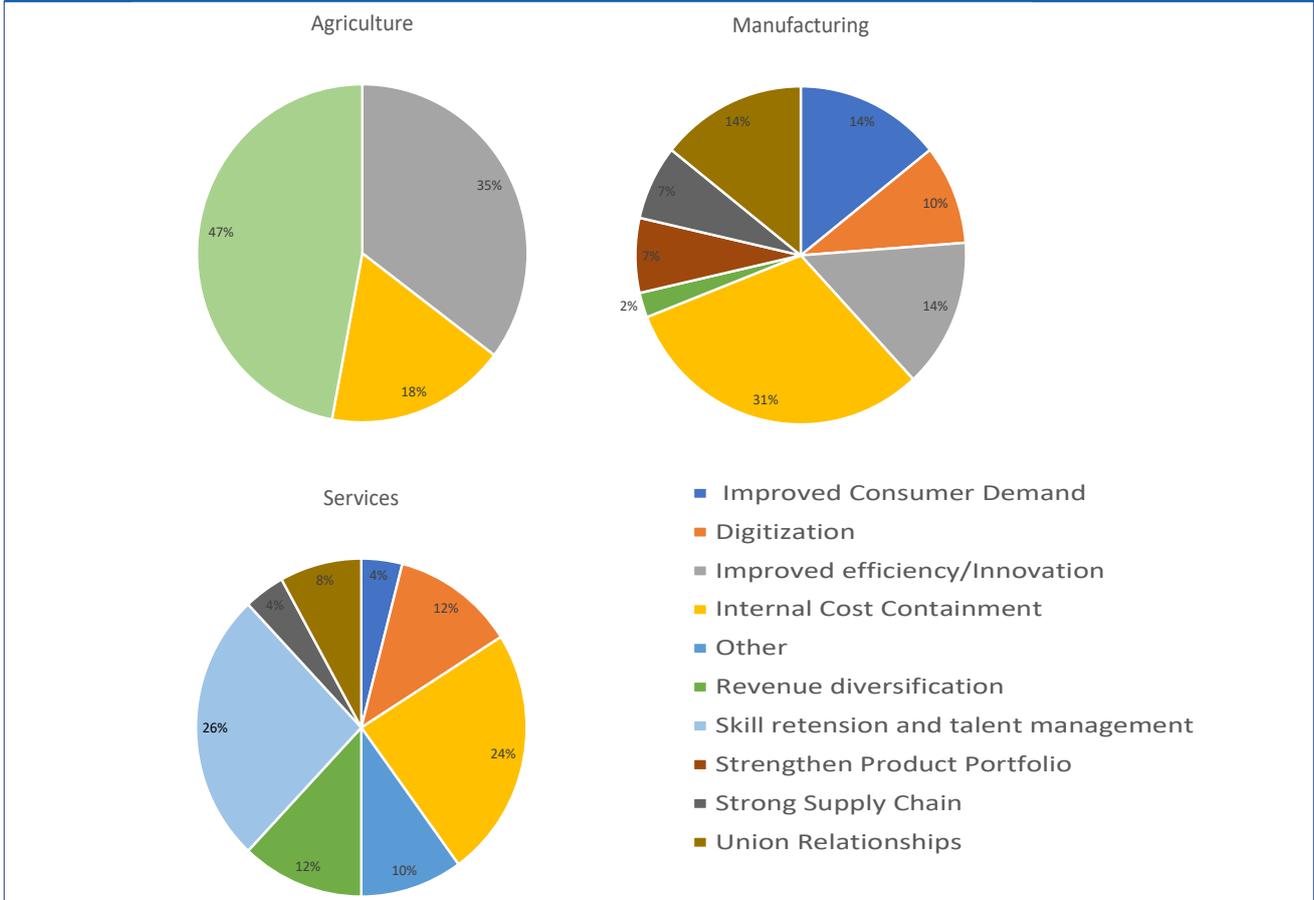


The Survey sought to establish internal factors that could support businesses' expansion over the next 12 months (**Chart 9**). The Survey results revealed internal cost containment as the main factor in all sectors. Other factors were varied across the sectors. In the services sector, skills retention/ talent management and internal cost containment measures ranked highest. In the manufacturing sector, internal cost containment measures was the most significant factor while improved consumer demand, improved efficiency/innovation and union relationships were ranked as equally important. In

the agriculture sector, revenue diversification was the most significant internal factor that companies would consider to strengthen their company outlook followed by improved efficiency and innovation.

Cost containment measures that companies would put in place include: sub-contracting of non-core business, optimizing cost of operations and conserving cash (cutting back on maintenance, employment freeze, reducing inventory etc.) and utilizing idle capacity.

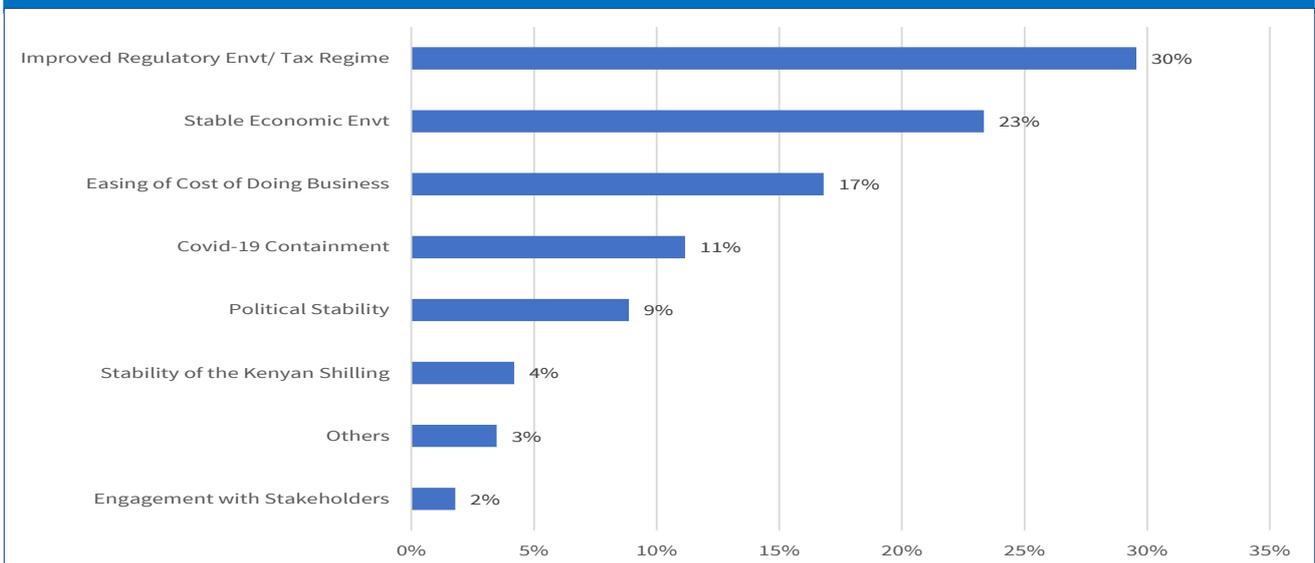
Chart 9: Internal factors that could strengthen firms' outlook by Sectors



An improved regulatory environment, a stable economic environment and conducive business environment ranked highest amongst the external factors across all sectors that businesses anticipate could strengthen their company outlook over the next 12 months (Chart 10). Key factors contributing to a stable economic environment identified by respondents include, controlled inflation, favorable

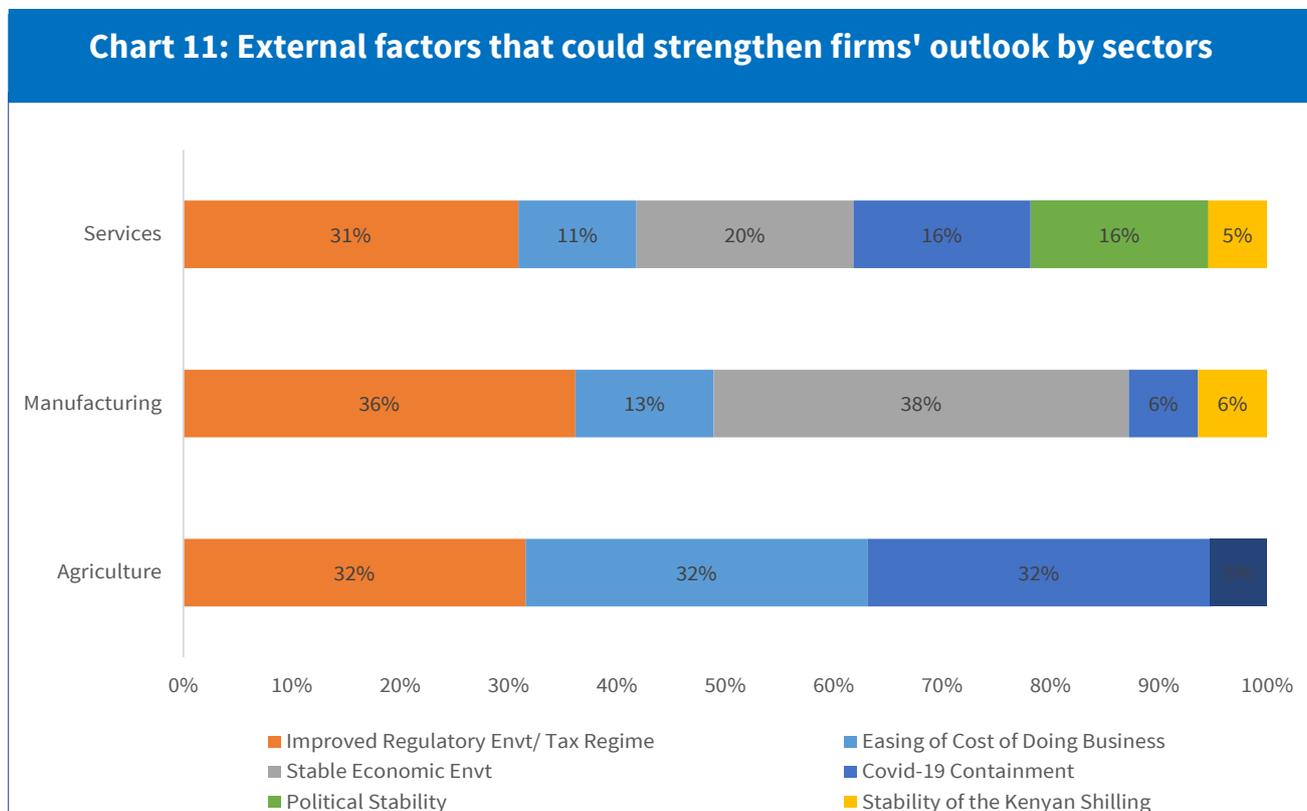
fiscal and monetary policies, stable Treasury bill rates, Foreign Direct Investment, and stability of the Kenya shilling. Respondents pointed to factors such as easing of the cost of doing business e.g. power costs, transport costs, fuel costs, raw material availability, and cheaper sea freight to be key to a conducive business environment.

Chart 10: External factors that could strengthen firms' outlook



Across all sectors, improvements in the regulatory environment and the tax regime were indicated as the main factors that could strengthen firms' outlook (**Chart 11**). In particular, businesses would like to see faster VAT refunds and predictability in the tax regime. A stable economic environment was

indicated as important by respondents in the services and manufacturing sectors while in the agriculture sector, improved regulatory environment, COVID-19 containment and easing of the cost of doing business all rank equally.



9. TOP COMPANY STRENGTHS, CONCERNS AND PROPOSED SOLUTIONS

The Survey requested respondents to indicate their top company strengths, concerns and proposed solutions to the identified concerns.

Top company strengths across all sectors included technical capabilities and the quality of the workforce followed by trusted and reputable brands and effective supply chains (**Chart 12**). Most firms reported good internal resources (high caliber employees) to be integral in delivering value to their customers. Local manufacturing and diversification of products ranked about equally across all sectors. This bias towards locally manufactured products,

according to the respondents, benefits customers in terms of import duty savings, lead time advantages and product availability.

At the sector level, a trusted brand and strong company values ranked top for services sector respondents, while a trusted brand, innovation and technical capabilities were key strengths for the manufacturing sector (**Chart 13**). The agricultural sector strengths mirrored those reflected in the manufacturing sector.

Chart 12: Firms' top strengths

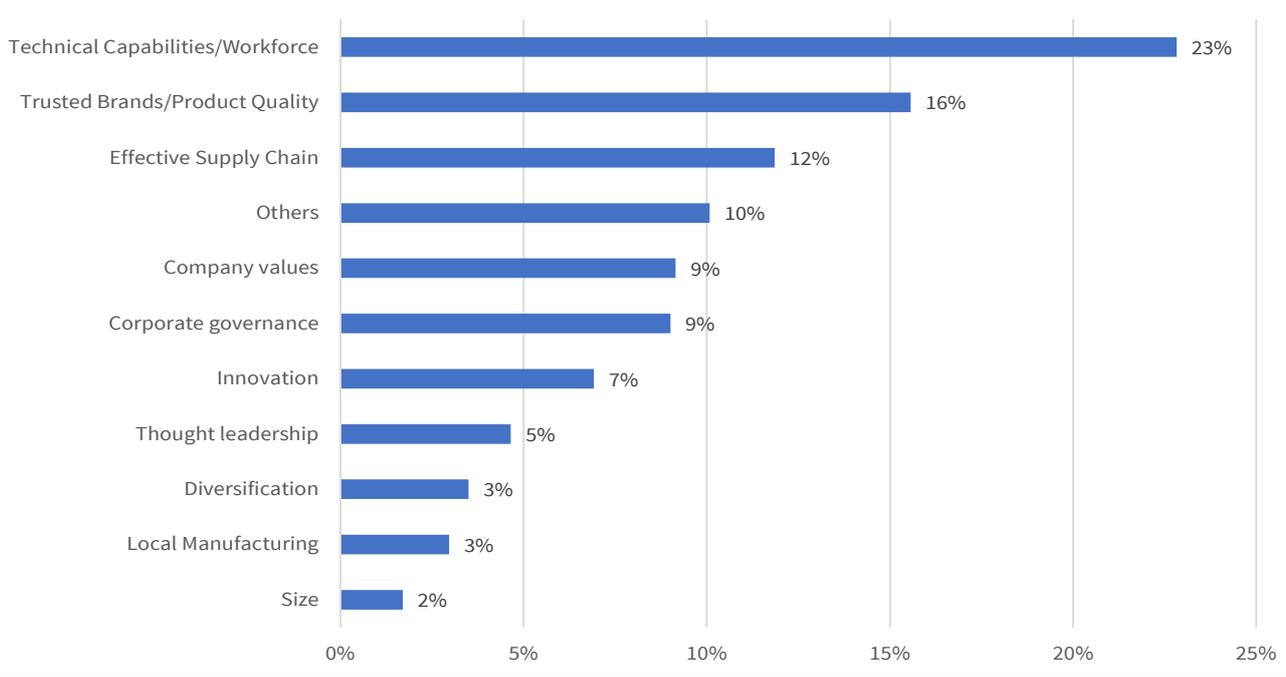
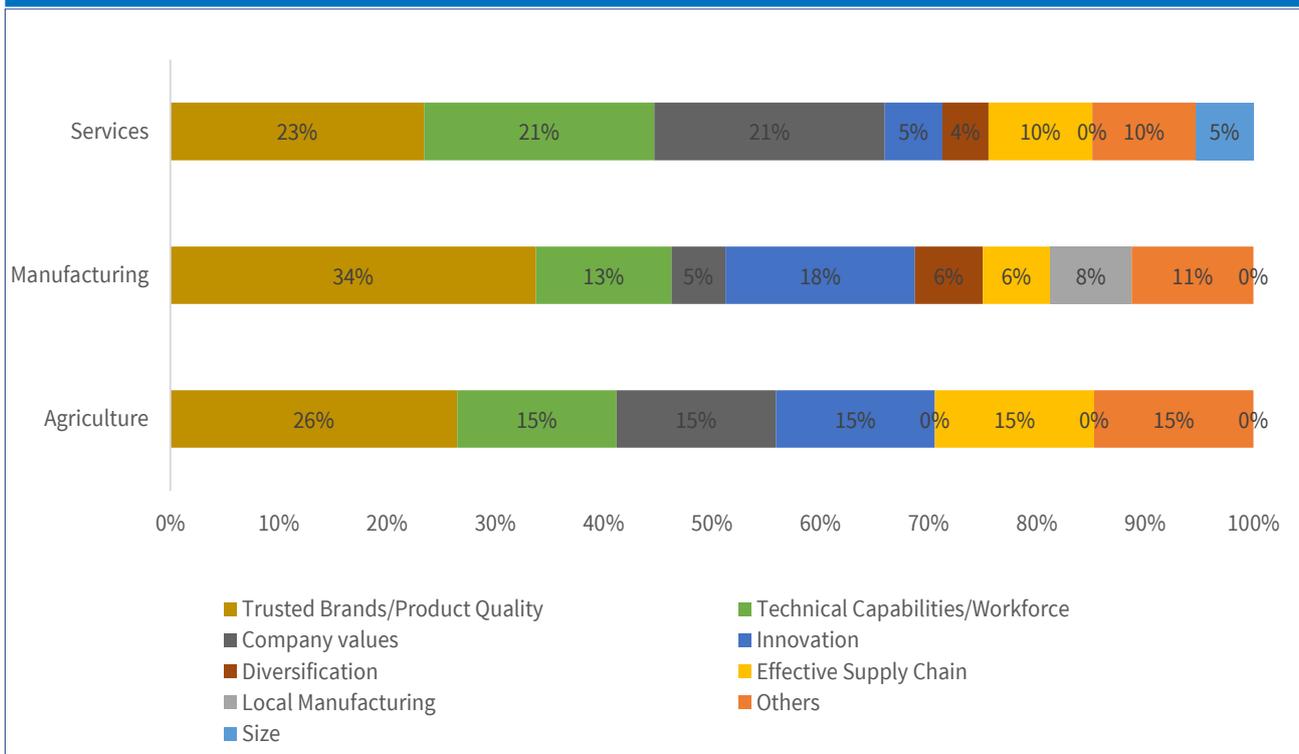


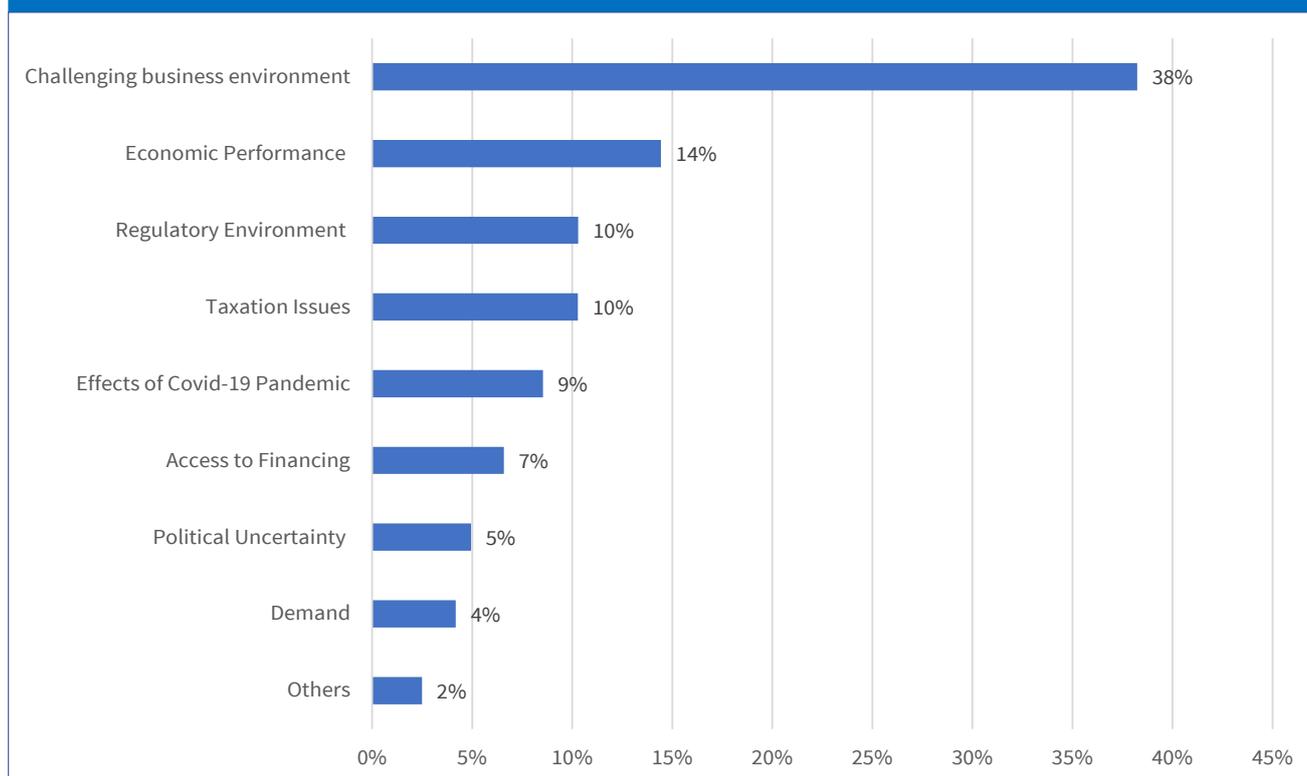
Chart 13: Firms' top strengths by sectors



With regard to top company concerns, the Survey revealed that a challenging business environment, and economic performance [Inflation, rising debt, agricultural productivity, declining consumer demand, recession etc.] were key concerns to most respondents (**Chart 14**). These factors were of greater concern for respondents in the wholesale and retail trade, transport and storage, mining, energy and pharmaceutical sectors. The cost of doing business was also highlighted as a concern as was the rising

cost of fuel. The effects of the COVID-19 pandemic were a lesser concern compared to taxation issues (withholding tax/VAT refunds and excise duty on fast moving consumer goods, introduction of new taxes). Businesses were also concerned about the effects of the third wave of the COVID-19 pandemic, particularly the success or otherwise of the vaccine rollout and the general decreased economic activity due to the pandemic.

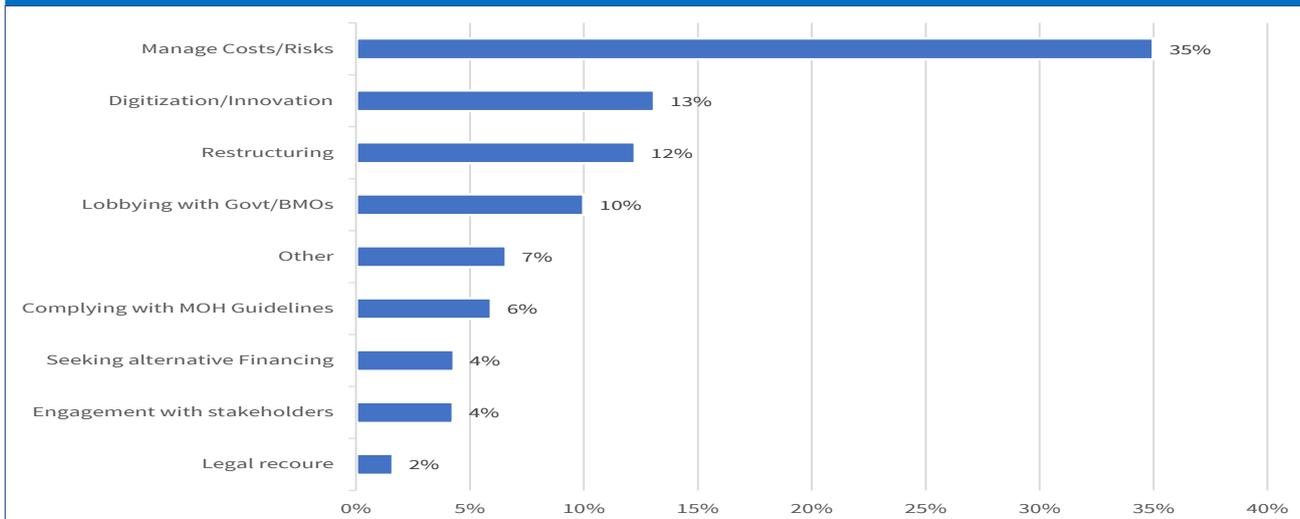
Chart 14: Firms' key concerns



To address the challenges and concerns identified in their sectors, most companies plan to manage costs/risks, digitize/innovate, lobby with relevant stakeholders and restructure and/or diversify their portfolio (**Chart 15**). This is especially so for companies in the services sector (wholesale and retail trade, transport and storage, and real estate sectors) where firms plan to diversify beyond current customer base and also into the EAC region and

emerging markets. Regarding regulatory concerns, industry players plan to lobby with relevant stakeholders including Business Membership Organizations (BMOs) and the government. Firms proposed other solutions such as provision of COVID-19 funds for employees' medical scheme and training and recruiting more skilled staff, and enhancing corporate governance.

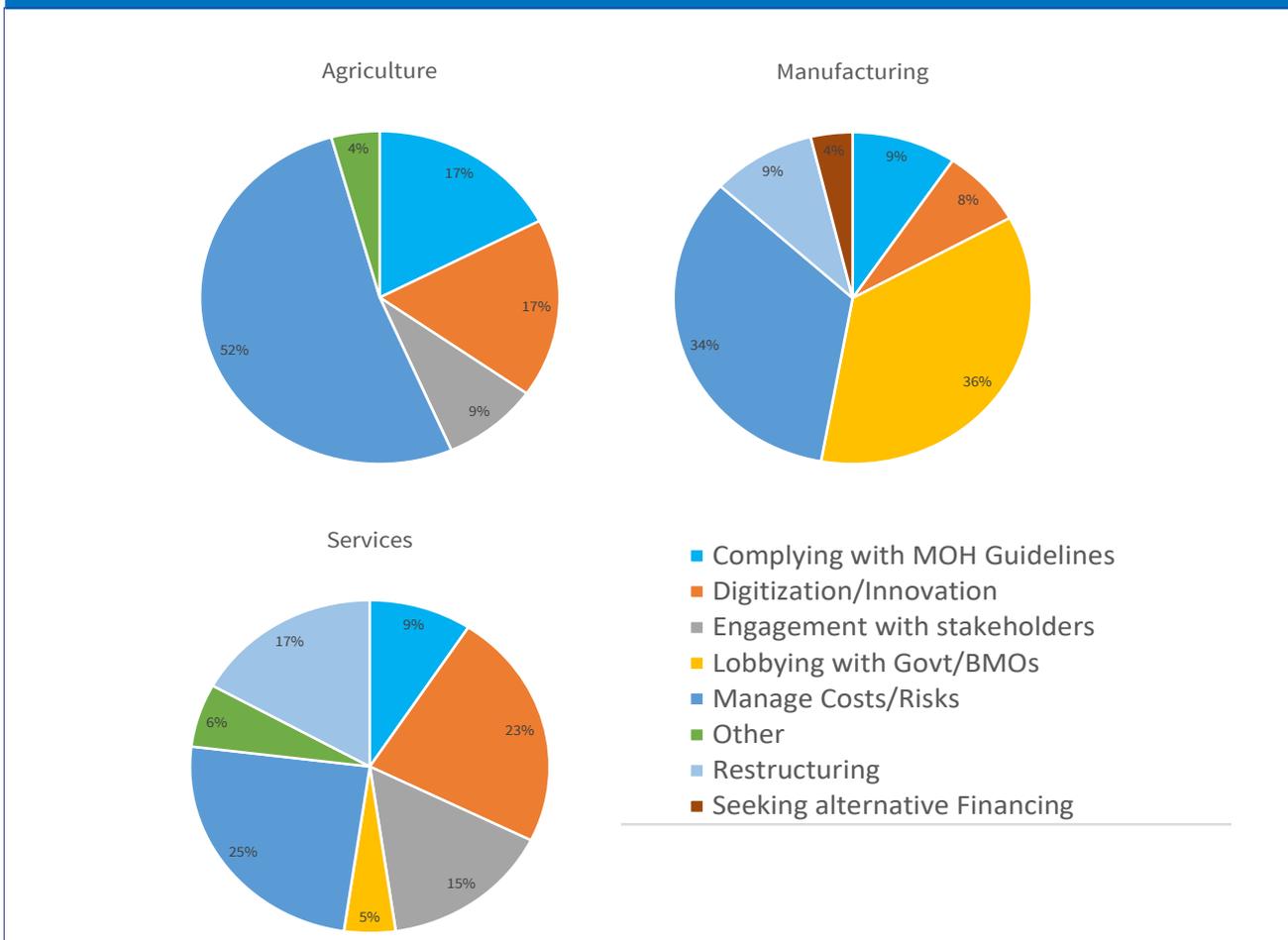
Chart 15: Firms' solutions to most urgent concerns



A sector analysis of the proposed solutions by respondents revealed that managing costs and risks was a key solution especially for the agriculture sector where proposals to run leaner operations and explore ways to enhance shared services in order to reduce costs were given (**Chart 16**).

In the manufacturing sector, lobbying with relevant stakeholders is a key priority especially to address the cost of doing business. Complying with Ministry of Health guidelines was an important coping strategy in dealing with the effects of the COVID-19 pandemic across all sectors.

Chart 16: Firms' solutions to most urgent concerns by sectors



10. STRATEGIC PRIORITIES

The Survey concluded by asking respondents to indicate their strategic priorities over the next three years. It was established that over the medium-term, businesses plan to undertake digital transformation, expand into new markets and improve the brand/value proposition of their current products, develop new products through horizontal diversification and vertical value add. Many businesses were looking to expand into new markets in the country, within EAC region and in new emerging markets. Digital transformation was an important strategy especially in the manufacturing, tourism, professional and ICT/Telecommunications sectors. Other strategic priorities include: good management policies (including talent management and training); good governance; identifying partnerships and strengthening subsidiaries.

11. CONCLUSION

A majority of CEOs were optimistic about higher growth prospects for their companies and sectors in the next 12 months. This optimism was mainly due to the rollout of the COVID-19 vaccines and the continued reopening of the economy which signalled gradual recovery. The higher company and sector growth prospects were strongest in the services sector which experienced slowdown in business activity during the pandemic but is expected to expand in the near term. Growth prospects for the Kenyan and global economies were mixed. While there was optimism due to a gradual pick up in business activity in the economy, businesses were concerned about anticipated heightened political activity, high cost of raw inputs and continued uncertainties over the COVID-19 pandemic. Although the vaccine rollout signalled a gradual recovery, businesses were concerned that shifts in global demand patterns could impact consumption and affect global growth.

Business leaders indicated a recovery in business activity in 2021 Q1 relative to 2020 Q4 mainly reflected in increased orders and production volumes. Demand, production volume and sales growth were higher especially for the agriculture and service sector firms, the latter having experienced the largest contraction in output in the 2020 Q2 and Q3.

The economic environment, COVID-19 pandemic and the business environment were identified as significant factors that could constrain growth/expansion of businesses over the next year. Business leaders indicated that internal cost containment, improved efficiency and innovation and skills retention were key internal factors that could strengthen their outlook. Externally, businesses indicated that an improved regulatory environment/tax regime, a stable economic environment and easing of the cost of doing business could strengthen the outlook of their firms over the same period.

The main concerns for CEOs were challenging business environment, economic performance and the effects of the COVID-19 pandemic. Business leaders indicated that they would leverage on their firms' top strengths, which they identified as technical capability/skilled workforce, a strong brand, and effective supply chains, to manage costs/risks, lobby with government and digitize/innovate to address their most urgent concerns.

In terms of strategic direction over the next three years, business leaders planned to expand into new markets, improve brand/value proposition of their current products and develop new products through horizontal diversification and vertical value add.

ANNEX: SURVEY QUESTIONNAIRE

GENERAL INFORMATION

i) What is the **name** of your company?

ii) What is your **title (Job Role)**?

iii) Please provide your **contact information**

Telephone number:..... Email:.....

iv) What is the size of your company in terms of:

a) The number of employees

Between 100 – 250

Between 251 – 500

Between 501 – 1000

Over 1000

Other (please specify)

b) The number of employees

Between KSh 250 million and KSh 750 million

Between KSh 751 million and KSh 1 billion

Between KSh 1 billion and KSh 5 billion

Over KSh 5 billion

Other (please specify)

v) What is the ownership structure of your company?

Privately-owned Domestic

Privately-owned Foreign

Publicly listed Domestic

Publicly listed Foreign

Government-owned

Other (please specify)

.....

vi) In which sector does your company operate in? Select one

- Agriculture
- Manufacturing
- Wholesale and Retail Trade
- Transport and Storage
- Real Estate

Other (please specify)

.....

How **long** has your company been operating in Kenya?

.....

A. BUSINESS CONFIDENCE/OPTIMISM

1. In terms of **growth prospects**, please indicate your level of confidence in the following over the next 12 months, compared to the current situation. (Please select one option per statement).

	Higher	Same	Lower
Growth prospects for your company			
Growth prospects for your sector			
Growth prospects for Kenya			
Growth prospects for the global economy			

Any additional comment on current performance of business activities?

B. OUTLOOK ON BUSINESS ACTIVITY

2. a) How would you rate the following performance indicators during **Quarter 1, 2021 (January – March)** compared with **Quarter 4 2020 (October – December)**?

	Higher	Same	Lower
Demand/ Orders			
Production volume			
Growth in sales			
Prices of goods and services purchased			
Prices of goods and services sold			
Number of full-time employees			

Any additional comment on recent past performance of business activities?

b) How do you expect the indicators below to develop in Quarter 2 2021 (April-June) ?				
		Increase	Remain Unchanged	Decrease
	Demand/ Orders			
	Production volume			
	Growth in sales			
	Prices of goods and services purchased			
	Prices of goods and services sold			
	Number of full-time employees			
Any additional comment on expectation of business activities?				

3. Currently, what is the **potential level of difficulty** in meeting an unexpected increase in demand or sales?

No difficulty (operating below capacity)	<input type="checkbox"/>
Some difficulty (at or near full capacity)	<input type="checkbox"/>
Significant difficulty (operating above capacity)	<input type="checkbox"/>
Other (please specify)	
Any additional comment on operating capacity?	

C. OUTLOOK ON THE EXTERNAL BUSINESS ENVIRONMENT

4. In your view, **what significant factors would constrain** the expansion/growth of your company over the next 12 months? List 3

- _____
- _____
- _____

5. In your view, what **internal factors** could strengthen your company's outlook over the next 12 months? List 3

- _____
- _____
- _____

6. In your view, what **external factors** could strengthen your company's outlook over the next 12 months? List 3

- _____
- _____
- _____

D. STRENGTHS, CONCERNS AND STRATEGIC PRIORITIES

7. What are your company's **top 5 strengths**?
(Please give in order of importance, starting with the most important)

- _____
- _____
- _____
- _____
- _____

8. a) What are your company's **top 5 current concerns**?
(Please give in order of importance, starting with the most important)

- _____
- _____
- _____
- _____
- _____

b) What are you doing to address your most urgent concerns?

- _____
- _____
- _____
- _____
- _____

9. What are the **top 3 strategic priorities** for your company over the next 3 years?

- _____
- _____
- _____

E. ANY OTHER COMMENTS

10. Do you have any other comments that you would like to give?

- _____
- _____
- _____



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