Emerging Issues and Updates - Kenya

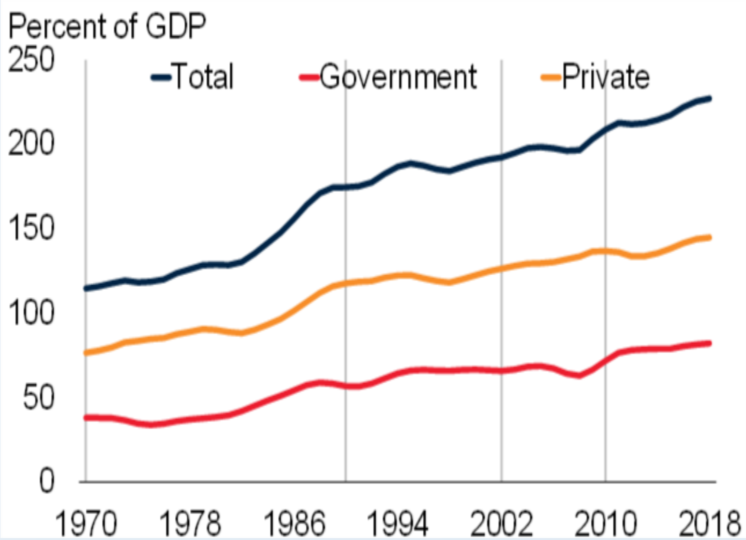
2020 Analysis

FE Advisory
Our knowledge your asset

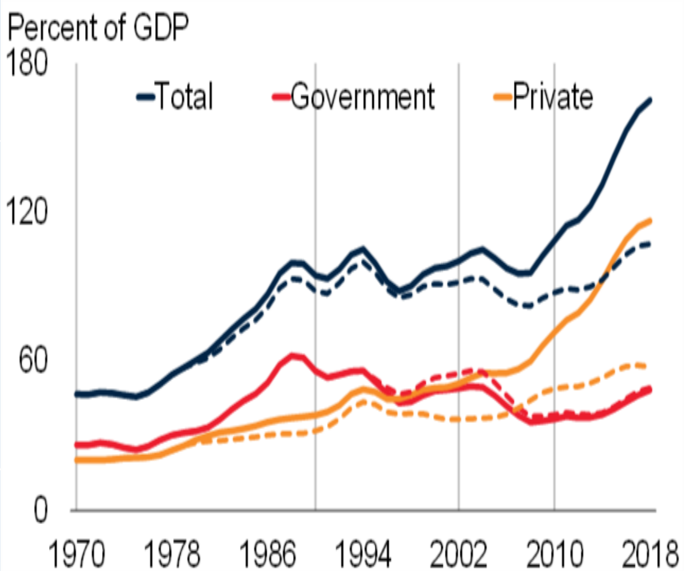
Surging Global debt levels and Declining interest rates

Fiscal stimulus response are curtailed in EMDEs due to high debt levels

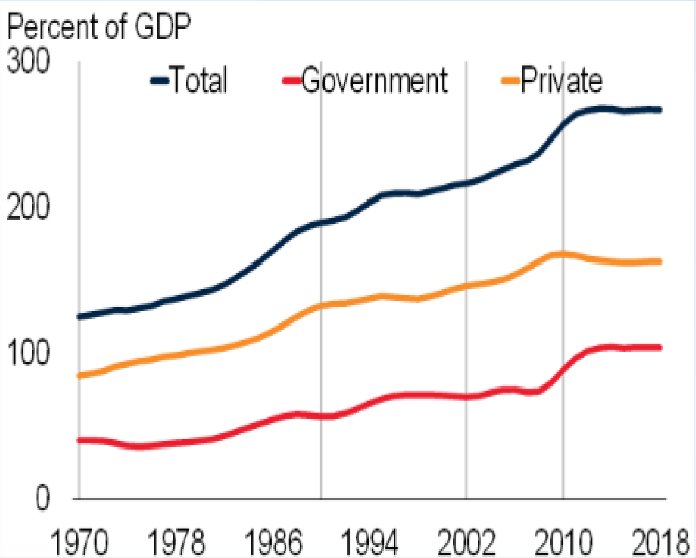
Global Debt



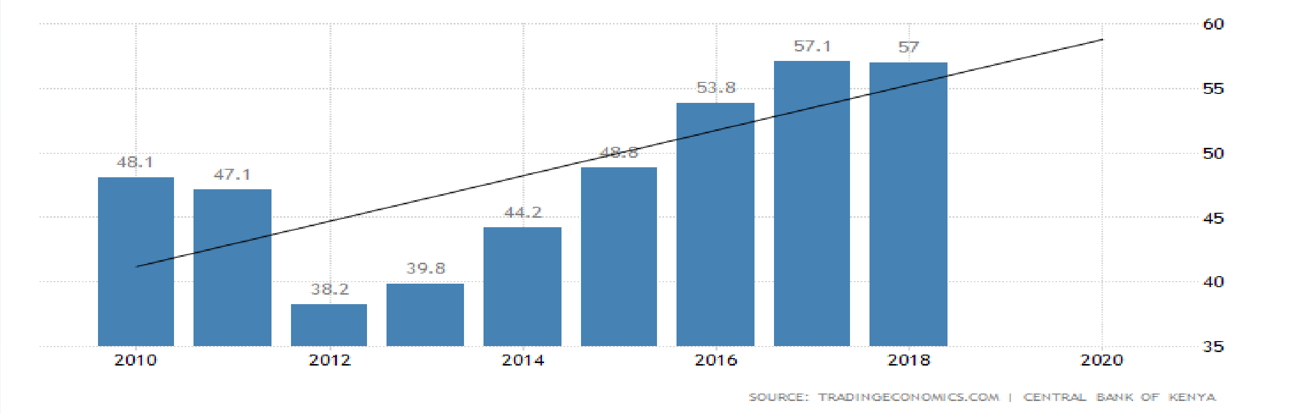
Debt levels in EMDEs



Debt levels in Advance Economies



Source: International Monetary Fund; World Bank



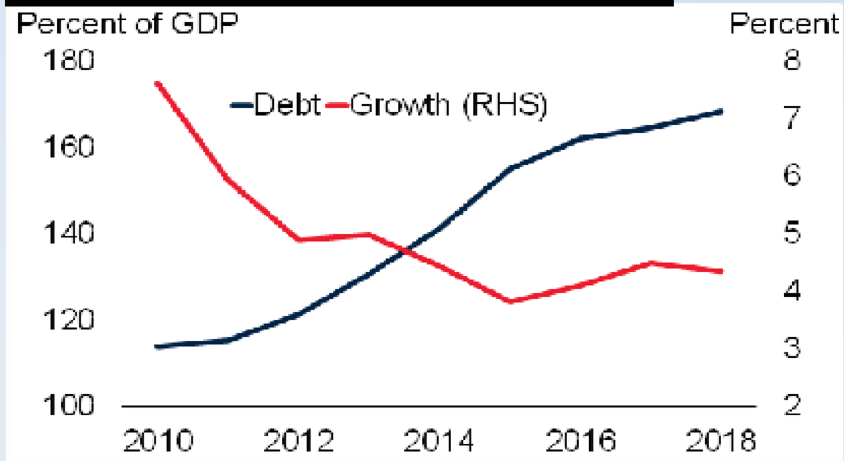
Kenya's Debt level at USD 60 Billion (60% of its GDP)

Debt per Capita - $ 1,029

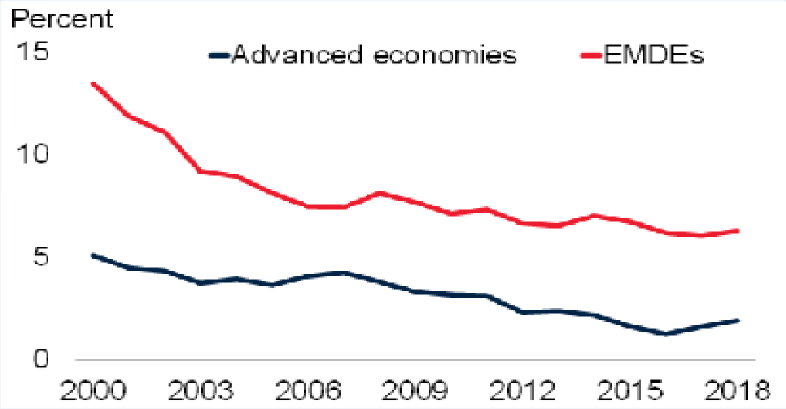
> 70% of the foreign debt is from China (Third Largest in Africa after Angola and Ethiopia)

Uncertainties impacting forecasting

Growth and debt in EMDEs



Long term interest rates



Looming uncertainty

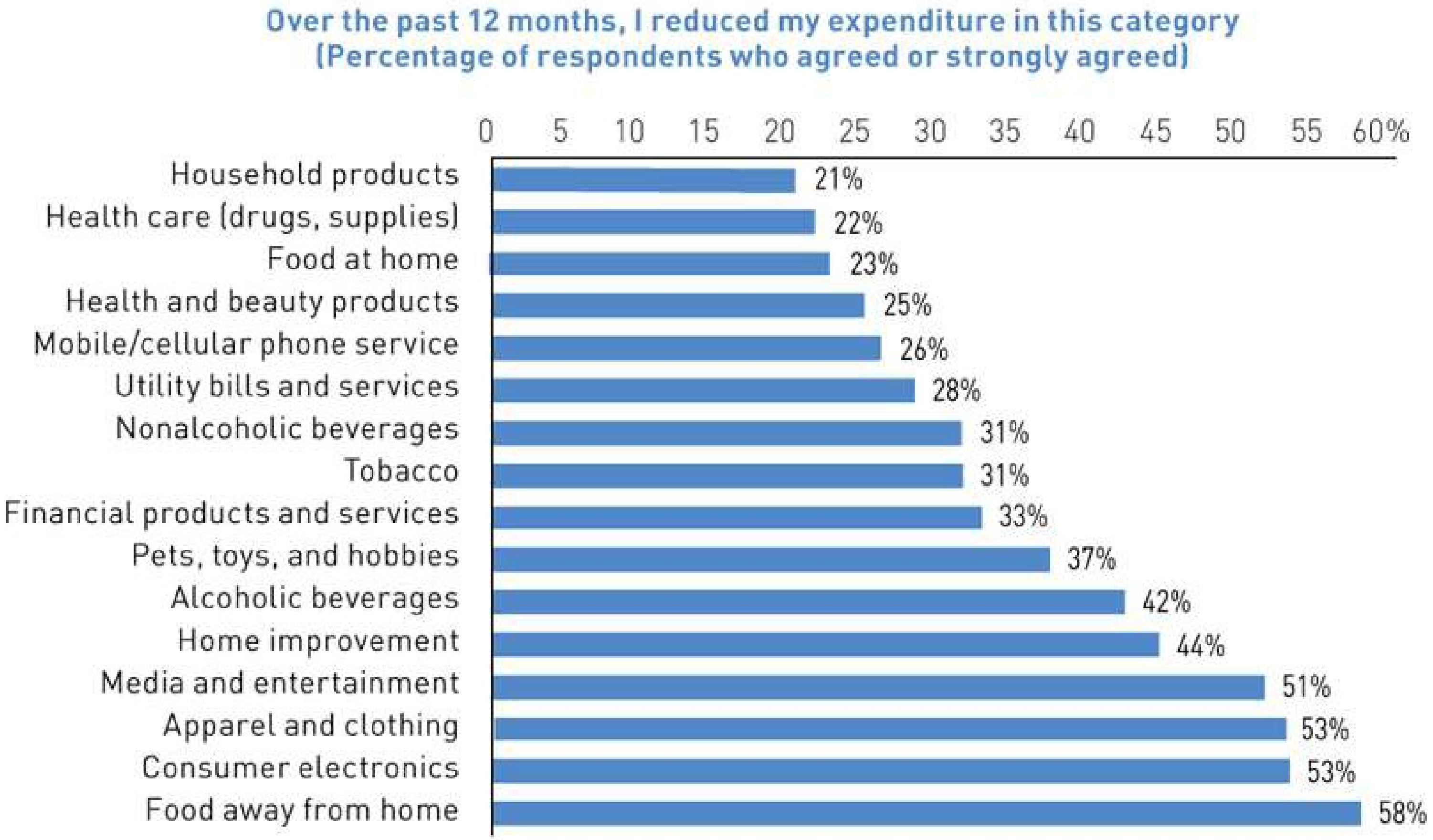
1. Pandemic Factors. What will be the peaking patterns
2. Labor Mobility Factors. How long will the travel bans in place? How extensive are quarantine and exclusion restrictions? How many people can work remotely?
3. Business Liquidity Factors . How many businesses are able to sustain long-term disruption?
4. Debt & Interest Rate Factors. How do existing fiscal constraints impact how governments can formulate new stimulus measures?
5. Political Factors. Will the world be able to forge a multilateral response to the crisis?

How is COVID—19 is disrupting organisations

Health & Safety	Serious concerns for the safety of workers and customers reducing face2face interactions.	Increased absenteeism amongst workers as the concerns for health increase
Demand shock	Traditional purchase triggers are being defeated as consumers stay away (retail, travel, entertainment)	Fears of possible consequences of the outbreak reducing discretionary spend
Supply Chain shock	Lean, JIT, tier 1 suppliers have led to inflexibility and inability to switch	Disruption of global supply chains affecting production across the world
Legal risk	Invocation of 'force majeure' clauses in contracts	Working capital constraints leading to staff redundancies/ costly operating model reviews
Working Capital Constraints	Falling revenues as consumer confidence takes a knock and many lose employment	Disruption of the supply chains leading to capital being held up, production runs delaying, distributors unable to pay and suppliers unable to deliver
Cybersecurity	Monitoring centres shut down as personnel become affected	COVID-19 Phishing emails on the increase driving up vulnerability.

FE Advisory
Our knowledge your asset

Impact on industries:



Source: Booz & Company Fall 2009 Survey of Consumer Spending. Sample size n = 2,010

Throw Back look of 2008 GFC

Covid-19 Industry Impact

FE Advisory
Our knowledge your asset

Industry characteristics

	Large Gatherings are essential	Close human interaction is essential	Hygiene, or perception thereof, is critical	Dependant on travel (business and leisure)	Service or product is postponable or expendable	Impact analysis
Tourism and hospitality	Very high	Very high	High	Very high	High	Very high
Sports	Very high	Very high	Medium	Low	Medium	High
Music	High	High	Low	Medium	Medium	High
Automotive	Low	Low	Medium	Low	Very high	High
Beverages (Alcohol)	High	High	Medium	Medium	Low	Medium
Retail (non-food)	High	Medium	Medium	Medium	Medium	Medium
Pharmaceuticals	Low	Low	High	Low	Low	Low

Country Classification by Resource Abundance in Sub-Saharan Africa

FE Advisory
Our knowledge your asset

Resource-rich countries		Non-resource-rich countries		
Oil	Metals & minerals			
Angola	Botswana	Benin	Gambia, The	São Tomé and Príncipe
Chad	Congo, Dem. Rep.	Burkina Faso	Ghana	Senegal
Congo, Rep.	Guinea	Burundi	Guinea-Bissau	Seychelles
Equatorial Guinea	Liberia	Cabo Verde	Kenya	Somalia
Gabon	Mauritania	Cameroon	Lesotho	Sudan
Nigeria	Namibia	Central African Republic	Madagascar	Tanzania
South Sudan	Niger	Comoros	Malawi	Togo
	South Africa	Côte d'Ivoire	Mali	Uganda
	Sierra Leone	Eritrea	Mauritius	Zimbabwe
	Zambia	Eswatini	Mozambique	
		Ethiopia	Rwanda	

Note: Resource-rich countries are those with rents from natural resources (excluding forests) that exceed 10 percent of gross domestic product.

Economic Exposure to COVID-19 of Sub-Saharan African Countries

		China Exposure: Low	China Exposure: High
Commodity exposure	Low	Benin Botswana Burkina Faso Burundi Cabo Verde Cameroon Central African Rep. Chad Eswatini Gambia Kenya Malawi Mali Namibia Niger Nigeria Rwanda Senegal Seychelles Sierra Leone South Africa Tanzania Uganda Zimbabwe	Congo, Dem. Rep. Ethiopia Guinea Liberia Lesotho Madagascar Mauritius Togo
	High	Côte d'Ivoire Ghana Guinea-Bissau Mozambique	Angola Congo, Rep. Gabon Equatorial Guinea Mauritania Zambia

Sources: World Development Indicators, World Bank; Direction of Trade Statistics, International Monetary Fund.

Notes: A country has "high" exposure to trade with China if its imports from or its trade with China as a percentage of GDP exceeds the world's 75th percentile—that is, 5.2 and 7.3 percent, respectively. Additionally, a country has "high" commodity exposure if its exports of commodities as a percentage of GDP exceed the world's 75th percentile (21 percent).

Avoid P&L recession to translate into balance sheet recession

Demand contraction/ Supply shock/ Impact of recession / Fit to survive

IMPACT

SEVERITY AND DURATION OF ECONOMIC IMPACT

Pandemic control Fiscal Stimulus Multilateral reliefs

	Positive Revenue growth through demand surge *e.g. E-commerce/E-learning*	**Mildly negative** Sustained revenue lossof 0-15% in Q2-42020 *e.g. ConsumerGoods*	**Severe** Sustained revenue lossof 15-50% in Q2-42020 *e.g. Oil andgas*	**Catastrophic** Sustained revenue lossof +50% in Q2-42020 *e.g. Tourism*
6 monthsimpact **V-curve** rebound: Effective pandemic control and fiscal stimulus	Ride the wave: boost supply to keep up with demand surge	Push through andprepare for fast back-to-normal upswing	Survive and preparefor relatively slow back-to-normal recovery	prepare for re-start
18 months impact **U-curve** recovery: Social distance measures prolonged, fiscal stimulus easesdamage	Push for growth and market share	Defend, improve competitive position, and find newgrowth	Pivot through organic innovation andinorganic growth, ordivest	Pivot through organic innovation andinorganic growth, ordivest
3 yearimpact **L-curve** recovery: Failed pandemic control, and wide-spread bankruptcies and credit defaults	Aggressive push for growth and marketshare	Defend, improve competitive position, and find newgrowth	Prepare foraggressive new entrants.Reinvent and create totally new position, orabandon	Abandon market

Stock Taking of Measures Taken

COUNTRY	FISCAL	MONETARY AND MACRO-FINANCIAL	EXCHANGE RATE AND BOP
Kenya	The government has earmarked funds for additional health expenditure, including enhanced surveillance, laboratory services, isolation units, equipment, supplies, and communication. The government has also earmarked funds for expediting payments of existing obligations to maintain cash flow for businesses during the crisis. Given lower revenues due to decreased economic activity and the need to accommodate emergency spending, the government is currently reassessing the budget deficit target for FY 2019/20.	The central bank: - Lowered its policy rate by 100 bps to 7.25% - Lowered banks' cash reserve ratio by 100 bps to 4.25% - Increased the maximum tenor of repurchase agreements from 28 to 91 days - Announced flexibility to banks regarding loan classification and provisioning for loans - Encouraged banks to extend flexibility to borrowers' loan terms based in pandemic-related circumstances - Encouraged the waiving or reducing of charges on mobile money transactions to disincentivize the use of cash.	No measures.

Set up your new economy growth initiative

Asses the impact	Develop the strategy	Go on offense	Make it happen

2-hour Impact session

How will COVID impact your industry

Impact monitoring

How will my customers, market, categories, and business overall be impacted in the mid to long term?

Growth strategy

How can I grow in this No Touch world, and outperform competitors?

Pivot your portfolio

How should I repurpose my investments to the right growth initiatives?

Develop opportunity pipeline

Develop a short-term pipeline of new business opportunities, driven by new customer behaviors

Develop M&A roadmap

Scan for inorganic growth opportunities

Run new business sprints

Run weekly sprints

Launch new proposition or business model

Design, develop, and launch a new proposition to market

Hire a growth team

Hire on-demand reinforcements for your teams

Disclaimer

Information provided here is of general nature and is not intended to address the circumstances of any particular individual or entity. A misstatement or omission of any fact or a change or amendment in any of the facts and assumptions we have relied upon may require a modification of all or a part of this document. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date of it is received or that it will continue to be accurate in future. No one should action such information without appropriate professional advice and after a thorough examination of the particular situation

Contacts

CPA. Simant Prakash
International Contact Partner

CPA. Gurudas Anvekar
Senior Partner, Tanzania

Inquiries: +254 789 399 685 | sprakash@5eadvisory.com
Kenya | Tanzania |India