

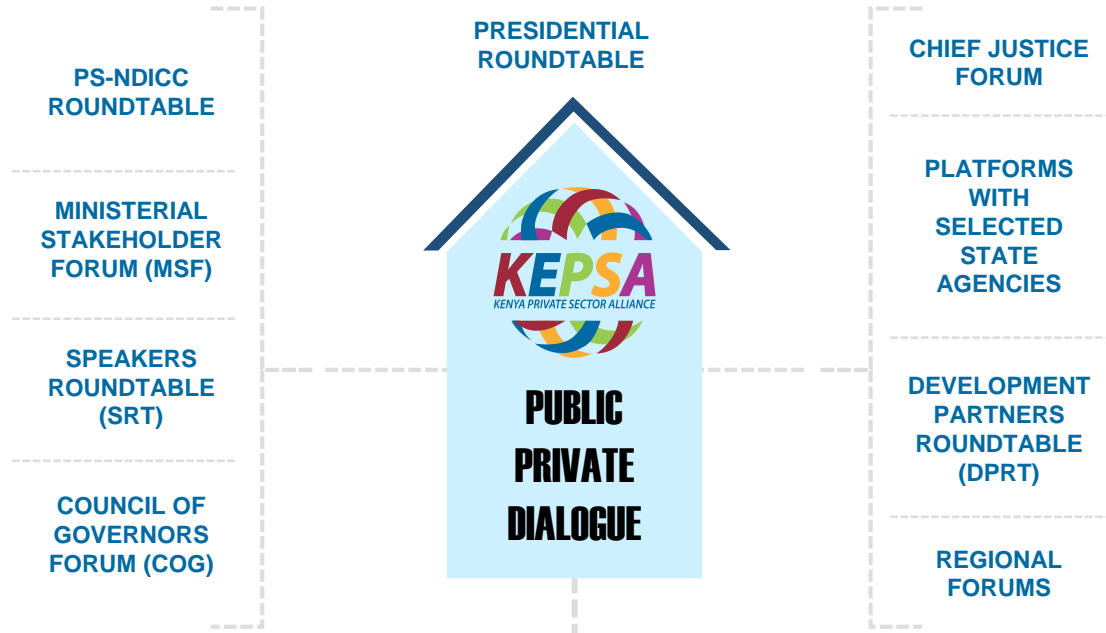


BUSINESS PERSPECTIVES ON THE IMPACT OF CORONAVIRUS (COVID-19) ON KENYA'S ECONOMY

***Presented by Mr. Victor Ogalo,
KEPSA Head of Policy Research and Public Private
Dialogue***

About KEPSA

WE HAVE ESTABLISHED VARIOUS PUBLIC PRIVATE DIALOGUE (PPD) PLATFORMS THROUGH WHICH WE DELIVER OUR MANDATE





Conducting high-level advocacy on cross-cutting policy related issues and ensuring Kenya is globally competitive in doing business



Coordinating private sector in Kenya through various mechanisms to engage in advocacy to promote economic growth



Developing & Strengthening Business Membership Organizations (BMO's) through capacity building

ABOUT THE KEPSA SURVEY



- **KEPSA conducted this survey to understand the projected impact of Covid-19 on the economy and across different business sectors.**
- **The Executive Order No. 2 of 2020 issued by President Uhuru Kenyatta provides a platform for business to engage with the Ministry of Trade and other offices in government on the Survey results and work on mitigation measures where government is involved for the sectors affected as well as for future mitigation measures.**
- **A total of 127 businesses participated in the survey drawn from 17 sectors of the economy. This is the presentation on the Members' views.**

Total cases

since 31st Dec 2019 (**)

114,243

Total deaths

since 31st Dec 2019

4,023

Cases

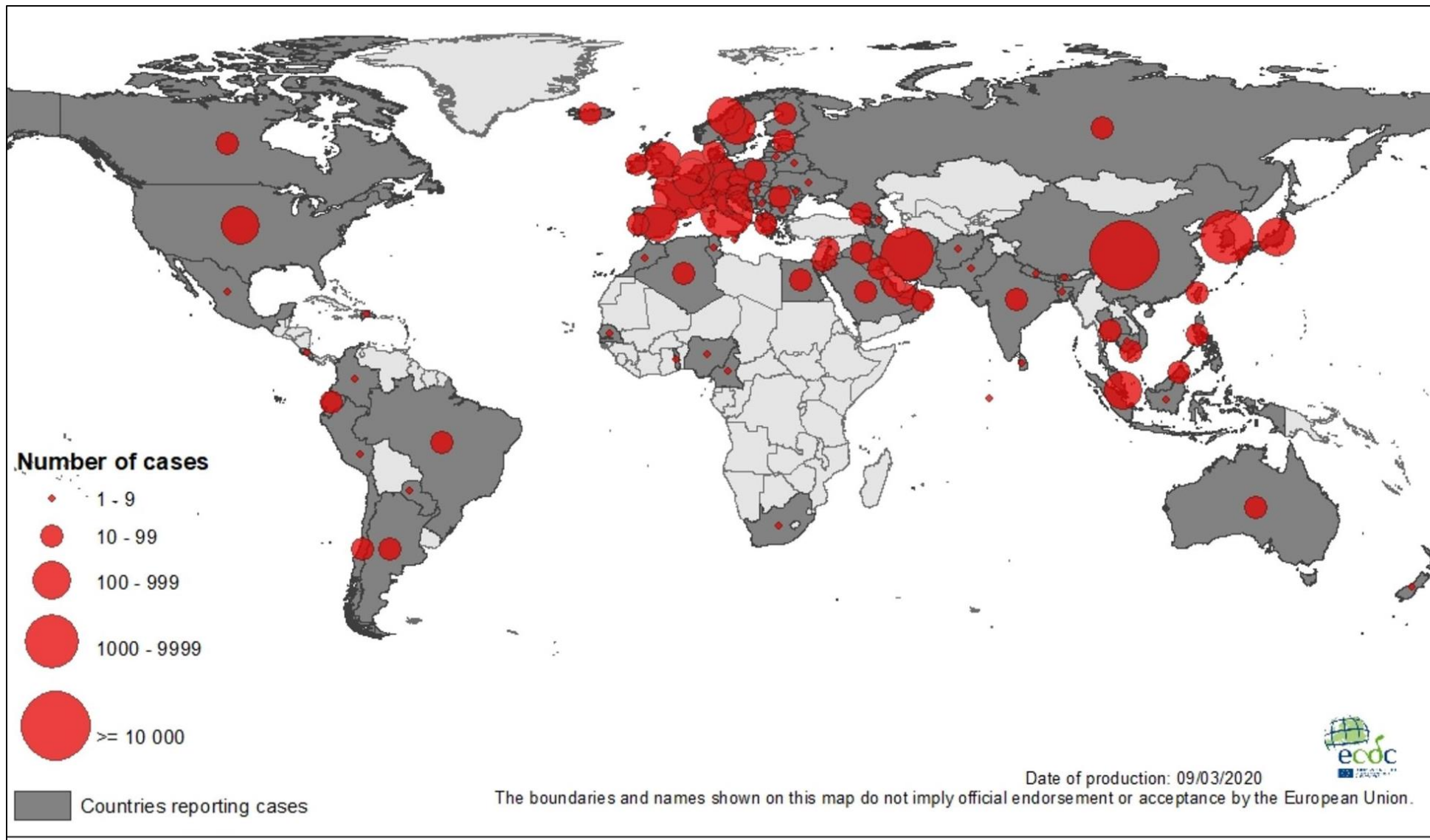
by selected criteria (**)

114,243

Deaths

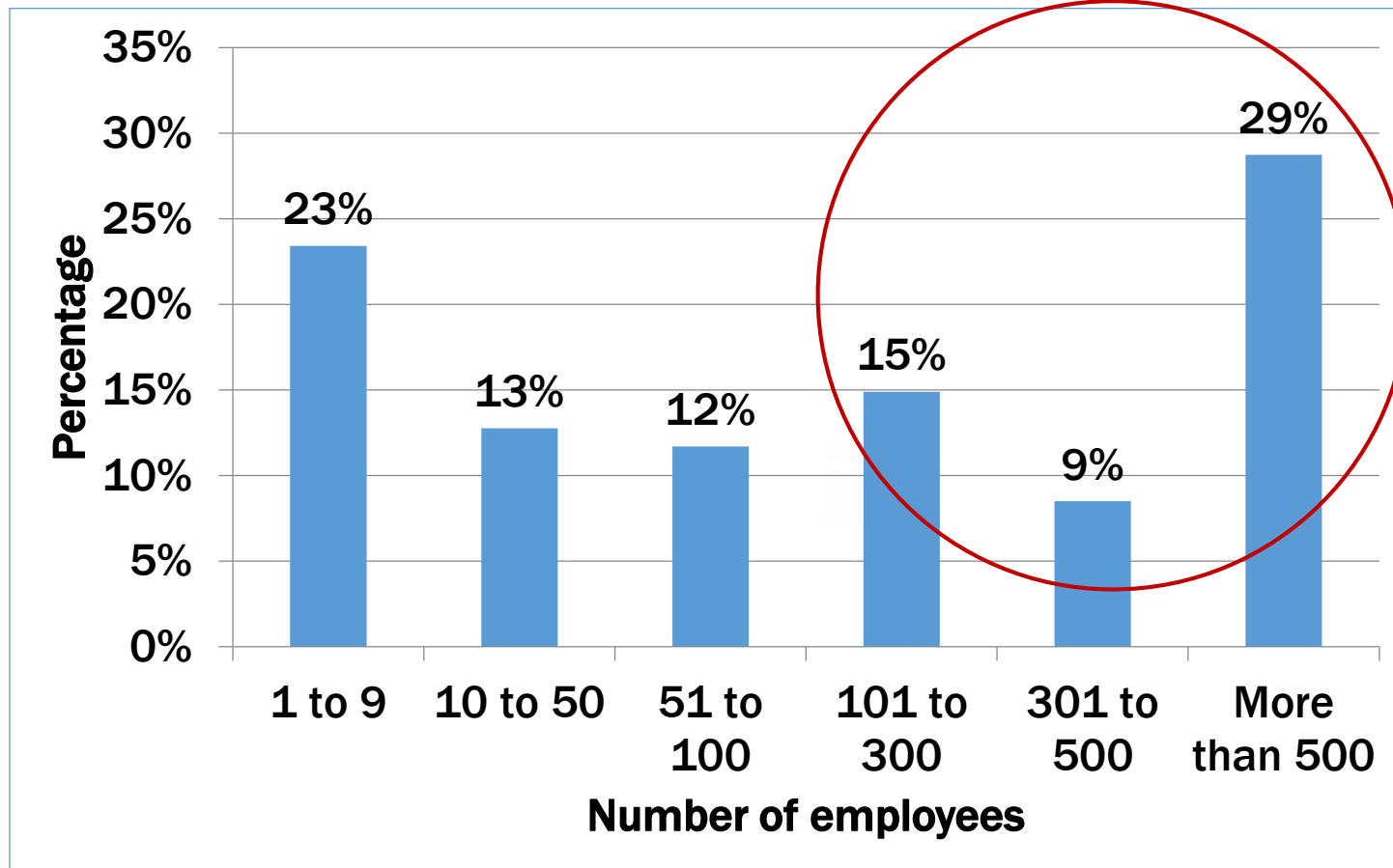
by selected criteria

4,023



- Zero reported cases within EAC
- 95 reported cases in 9 African countries (Egypt 55, Algeria 20, South Africa 7) and 1 death.
- Global cases are increasing daily. South Korea, Iran, Italy, France and Germany have the highest numbers of reported cases outside China.

THE SURVEY FINDINGS: SAMPLE CHARACTERISTICS

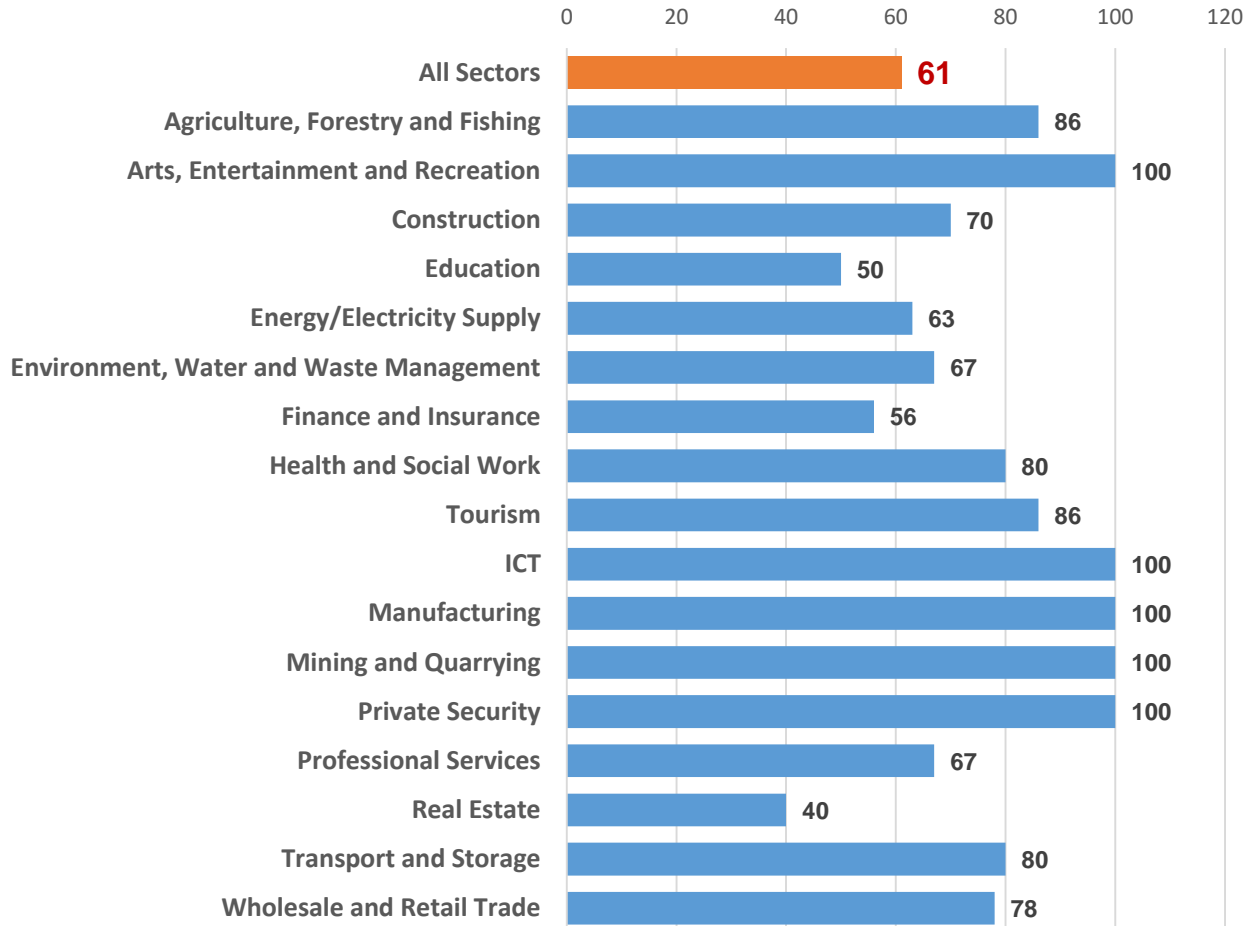


More than half (53%) of the surveyed businesses were **large companies** with more than 100 employees.

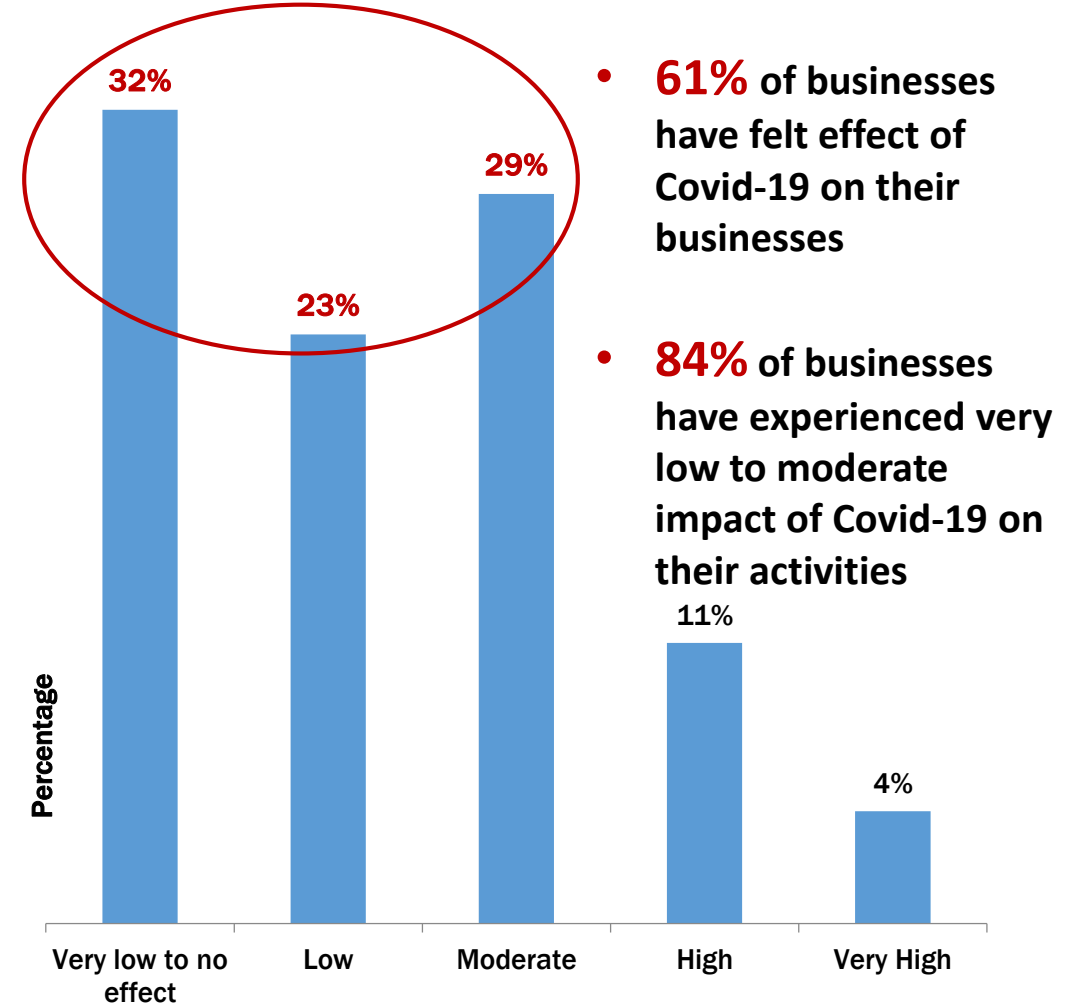
Micro enterprises, with 1-9 employees, were **23%** while small and medium sized businesses were **13** and **12%** respectively.

THE SURVEY FINDINGS: HOW BUSINESSES ARE AFFECTED

Firms reporting that their businesses have been affected due to Covid-19 (%)

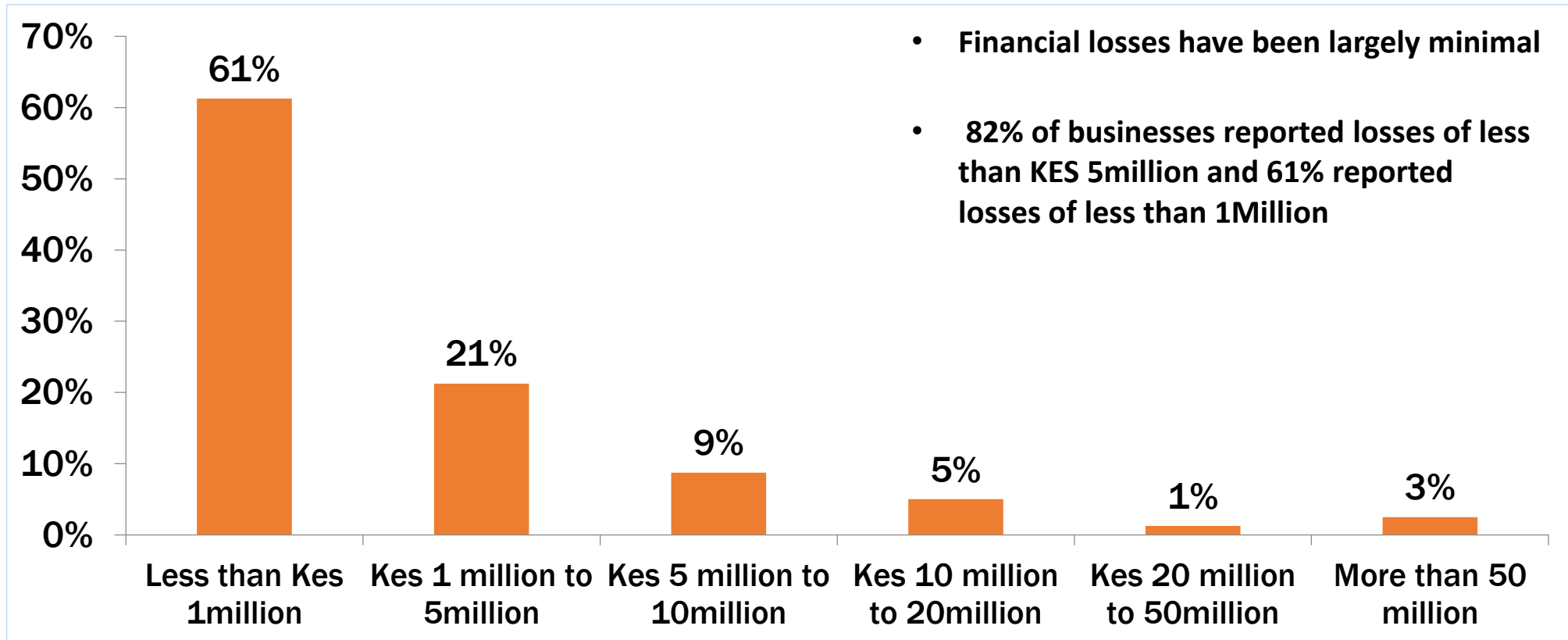


Extent of impact on the business activities from Covid-19



THE SURVEY FINDINGS: MAGNITUDE OF FINANCIAL LOSSES ATTRIBUTED TO COVID-19

The outbreak's financial impact is less than Kes 1 million for majority of the businesses

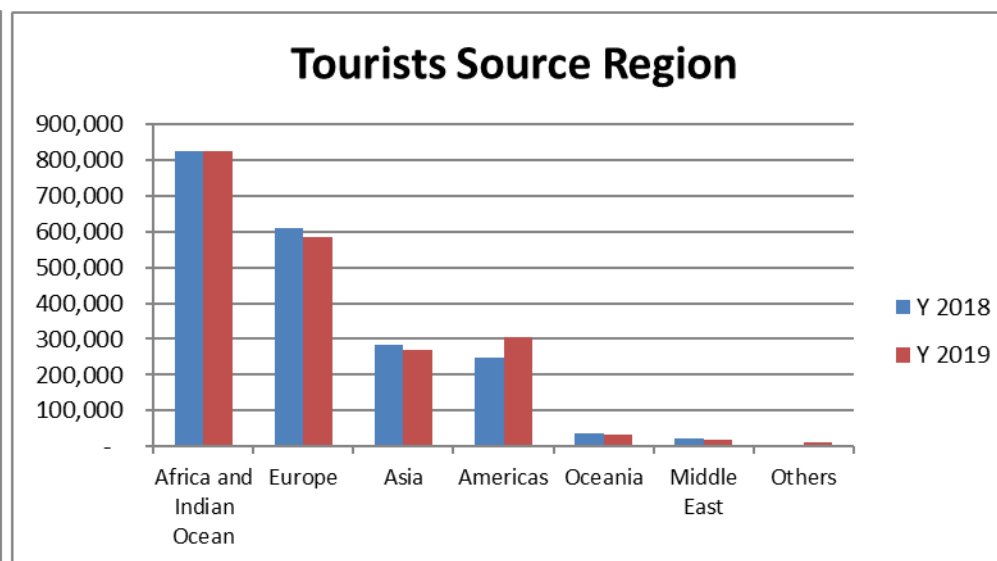
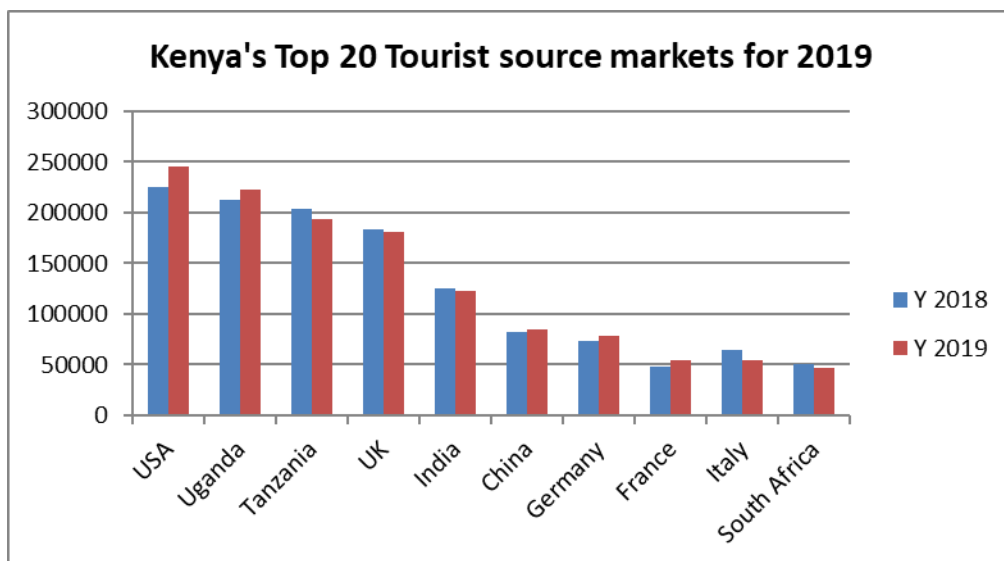


EXPECTED IMPACT ON KENYA AND EAC REGION

	Exports (Ksh B)	% of Exports	Imports (Ksh B)	% of Imports
China	11.1	1.8%	370.8	21.1%
South Korea	2.8	0.5%	19.0	1.1%
Iran	2.2	0.4%	10.4	0.6%
Italy	4.0	0.6%	25.7	1.5%
Germany	11.2	1.8%	46.6	2.6%
France	7.9	1.3%	23.9	1.4%
Total	612.9		1760.2	

Source: Economic Survey 2019 - KNBS

- The EAC has not reported any case of COVID-19. However, its links with the rest of the world in terms of trade and FDI exposes it to the risks.
- 21% of Kenya's total imports value are sourced from China while trade between African and China is 12%.
- In the first two months of 2020 Kenya's imports from China declined by 36.6%. Similarly, exports to China have been affected due to reduced demand– these include Kenyan avocados, tea, coffee, and other products.



Source: Ministry of Tourism & Wildlife: Kenya's Tourism Sector Performance Report, 2019

TOP 20 PRODUCTS ACCOUNT FOR 85% OF ALL KENYA'S IMPORTS FROM CHINA WORTH USD 3.1 BN

Product label	Kenya's imports from China	Kenya's imports from world	
	Value in 2018	Value in 2018	
USD thousands			
All products	3,661,017	17,376,721	21%
Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television ...	617,019	1,206,015	51%
Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof	540,023	1,665,765	32%
Railway or tramway locomotives, rolling stock and parts thereof; railway or tramway track fixtures ...	255,104	258,290	99%
Articles of iron or steel	248,606	398,749	62%
Iron and steel	226,768	860,532	26%
Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	163,314	1,228,148	13%
Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical ...	140,593	291,515	48%
Plastics and articles thereof	125,513	769,488	16%
Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings; ...	123,017	205,277	60%

TOP 20 PRODUCTS ACCOUNT FOR 85% OF ALL KENYA'S IMPORTS FROM CHINA WORTH USD 3.1 BN

	USD thousands	USD thousands	
Rubber and articles thereof	101,302	216,111	47%
Other made-up textile articles; sets; worn clothing and worn textile articles; rags	86,352	234,980	37%
Aluminium and articles thereof	70,792	150,932	47%
Articles of apparel and clothing accessories, not knitted or crocheted	68,590	94,105	73%
Man-made staple fibres	63,537	156,856	41%
Miscellaneous chemical products	57,787	353,356	16%
Knitted or crocheted fabrics	56,387	85,367	66%
Man-made filaments; strip and the like of man-made textile materials	50,499	79,571	63%
Organic chemicals	48,821	203,172	24%
Paper and paperboard; articles of paper pulp, of paper or of paperboard	42,261	423,103	10%
Cotton	37,431	80,954	46%
	3,123,716	8,703,996	36%

SECTORS MOST LIKELY TO BE AFFECTED IN KENYA AND EAC REGION



- 1. Tourism and travel related sectors:** nearly 6 million visitors to the EAC region annually.
 - **Contribution of tourism sector to export earnings:** Kenya 18%, Uganda 18%, Rwanda 30%, Tanzania 26% and Burundi 1.5%. Average for EAC is 18.8%.
 - **Contribution to GDP:** Average for EAC 12%: Rwanda 15%, Kenya 10%, Tanzania 14%, Uganda 10 and Burundi 4.3%.
 - The affected countries are some of the major source markets for tourists in Kenya and EAC region.
- 2. Transport and logistics players** due to reduced cargo volumes.
- 3. Industries that depend on imported raw materials,** intermediate and capital goods from the affected regions. These include manufacturers, construction and infrastructure developers, among others. In addition, Public and private projects being implemented by foreign companies or that rely on expertise from affected countries may also suffer slow progress.
- 4. Reduced FDI inflows:** In 2018, the EAC Trade and Investment Report shows that the region received USD 5.7 billion of which US\$ 2.1 billion and US\$ 1.0 billion went into manufacturing and construction respectively. China and India accounted for US\$ 1.1 billion and US\$ 281.02 million respectively.
- 5. Whole sale and retail sector** – shortage of essential consumer products that are imported.

CHANNELS THROUGH WHICH BUSINESS ACTIVITIES HAVE BEEN ADVERSELY AFFECTED



- 1. Increased business uncertainty.**
- 2. Disruption of logistics due to travel restrictions to China and other destinations,**
- 3. Cancellation of business-related travels including major conferences, pre-booked trips, etc.**
- 4. Inability to repay loans especially for the hospitality sector due to reduced business.**
- 5. Most import dependent investments are expected to suffer severe setbacks as most of raw materials are sourced from Asia. This includes contractors, suppliers and manufacturers.**
- 6. Stock outs and delayed deliveries.**
- 7. Increased expenses for implementing precautionary response plans**
- 8. High cost of operations – higher cost of sourcing from the alternative markets leading to higher prices and reduced competitiveness.**
- 9. Lack of sufficient, accurate official information on the virus regarding prevention, mitigation and cure continues to create fear, uncertainty and causing a “wait and see situation”.**
- 10. Reduced capital flows and investment appetite.**

SOME OF THE INTERIM MITIGATION MEASURES ADOPTED BY BUSINESSES TO CONTAIN THE SPREAD AND IMPACT OF COVID-19

Majority of the businesses surveyed have not adopted any mitigation measures, some preferring to wait and see while others are waiting for more information from government.

Measures adopted include:

1. **Sensitization** of staff and clients on CoVID19 and preventive measures, e.g. washing hands regularly, avoid gatherings, etc.
2. **Cancellation/ limitation of travel** to or from high risk areas and use technology to conduct meetings.
3. **Closely monitoring the situation**, and reviewing business preparedness.
4. **Work from home plans** for sick employees and Self-quarantine protocols for affected staff.
5. Conserving what is available and using more of what is available locally.
6. **Exploring alternative source markets** of anything that cannot be produced locally.
7. **Client engagement on the expected delays**, and review of business terms and conditions;
8. Proactive communication, more **lenient cancellation policies** and allowing cancellation of bookings to next year without penalties.
9. **Segregating key staff** to ensure that in case some staff do get impacted, the services continue to be delivered.
10. Promoting domestic and regional Tourism.
11. **Reviewing revenue expectations** especially on the key business lines with direct impact to reduce impact of the virus on job losses and cost of goods.

OPPORTUNITIES TO CUSHION BUSINESSES FROM THE IMPACT OF COVID-19

- 1. Early preparedness strategies** for public and private sector based on lessons from the countries that have already been affected e.g. public sensitization.
- 2. Local value chains development**– promote local sourcing of inputs and import substitution i.e. production for local market.
- 3. Turn the challenge to an opportunity to Buy Kenya Build Kenya:** provide targeted support to key industries to expand their capacity or establish new industries to manufacture import substitutes locally. (examples: enabling policy frameworks to support local production, tax incentives where possible, and develop a linkage framework between larger enterprises and traders to strengthen local supply chains).
- 4. Support Kenyan businesses to venture into potential alternative markets** for whatever cannot be produced locally.
- 5. Leveraging on regional markets** i.e. EAC (which at one time was our largest market), COMESA and AfCFTA.
- 6. Use of technology to minimize human to human interactions** – e.g. virtual meetings/Conferencing, working from home, business process outsourcing, cashless transactions to reduce exchange of contaminated currency, etc.
- 7. In the hospitality sector, focus on domestic and regional tourist sources.**

ANALYSIS OF BUSINESS PERSPECTIVES IN SAMPLE SECTORS/INDUSTRIES

A. MANUFACTURING

- About 82% source their inputs or export to China thus they face direct risk of supply chain disruption.
- Of the 18% who neither source inputs from nor export to China, about 67% still face the risk of supply chain disruption since they nonetheless purchase their raw materials from suppliers who source them from China.

Chart 1: Manufacturers that source inputs or export to China

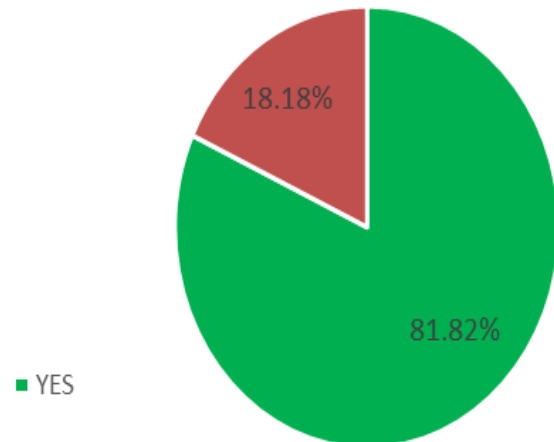
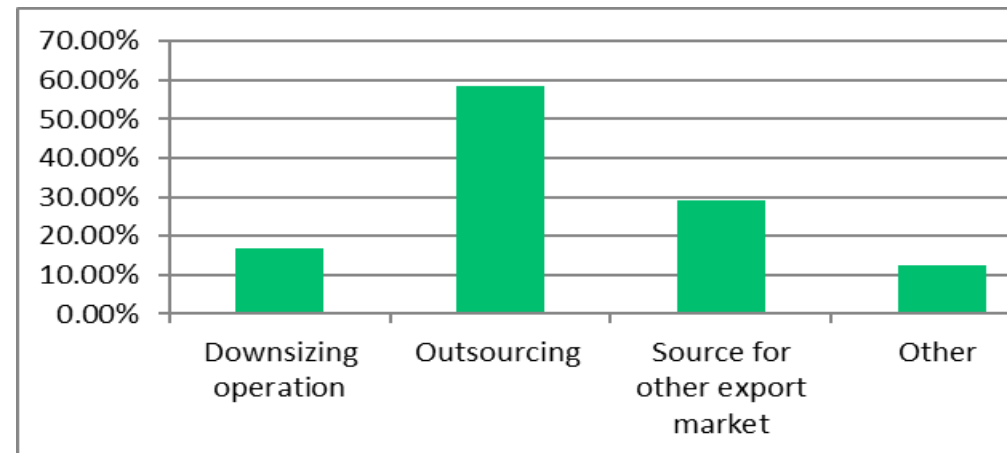


Chart 2: Areas in which manufacturers are exposed to sourcing and trading with China



Chart 3: Mitigation strategy against exposures to supply chain disruption



ANALYSIS OF BUSINESS PERSPECTIVES IN SAMPLE SECTORS/INDUSTRIES

B. FINANCE AND INSURANCE SECTOR

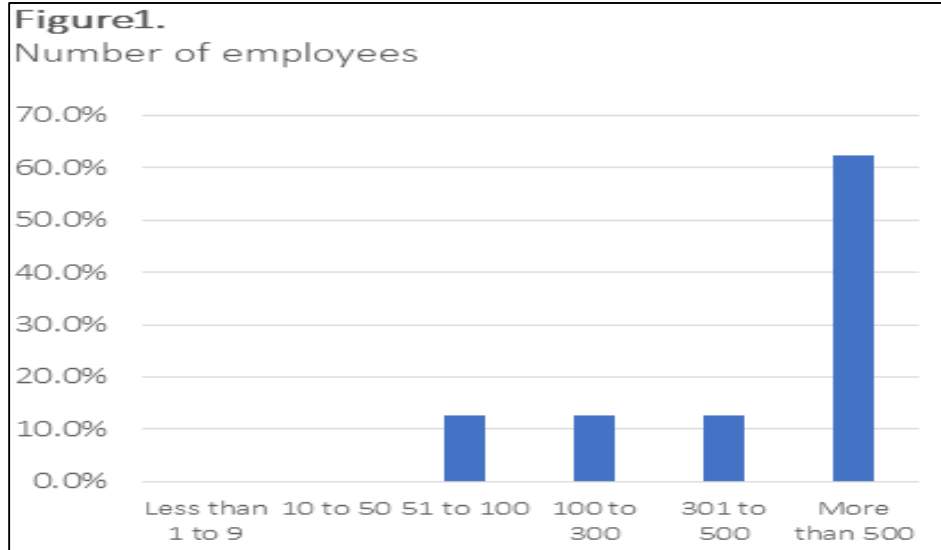


Figure 3.
Extent of impact on business activity

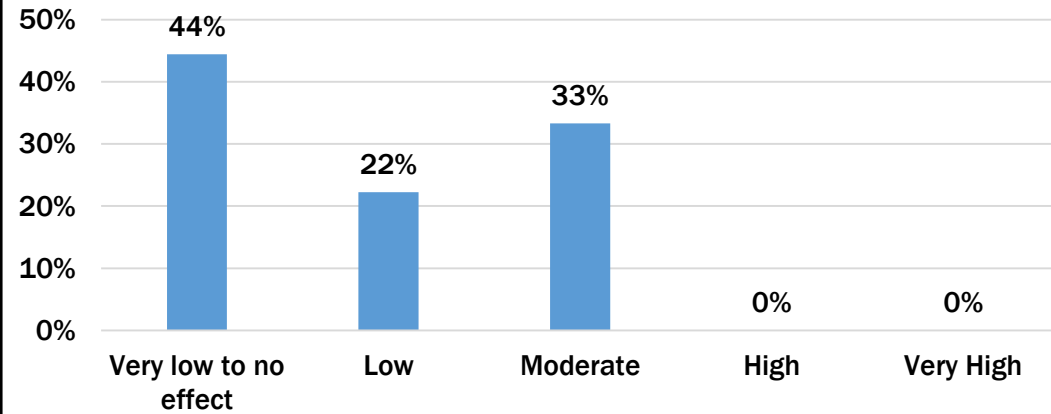


Figure 2.
Institutions reporting effects of Covid-19

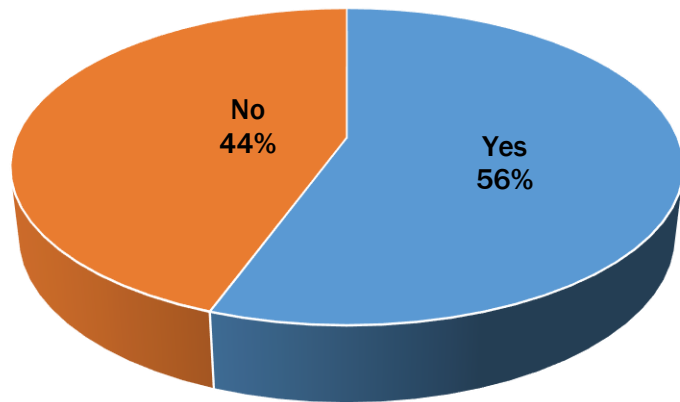
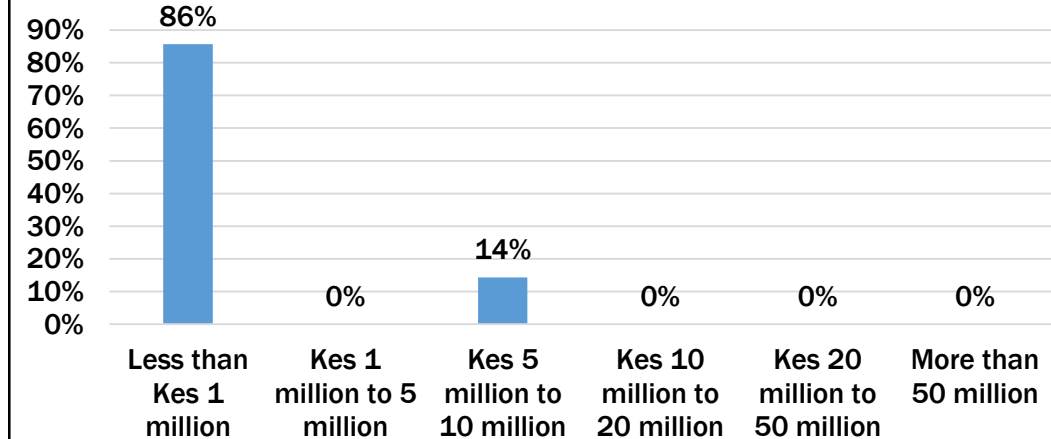


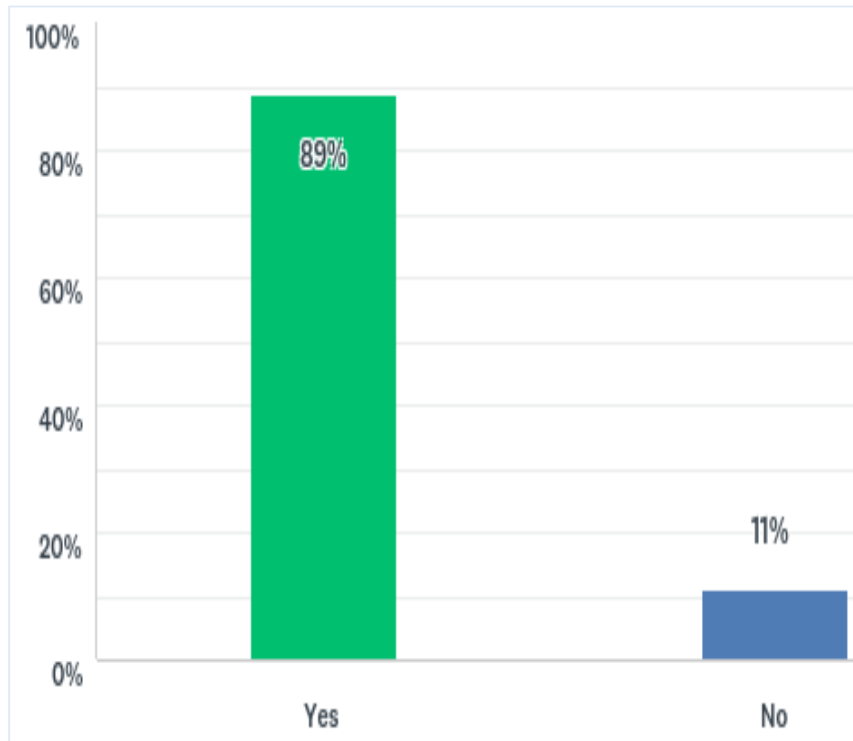
Figure 4.
Magnitude of the effect of the outbreak



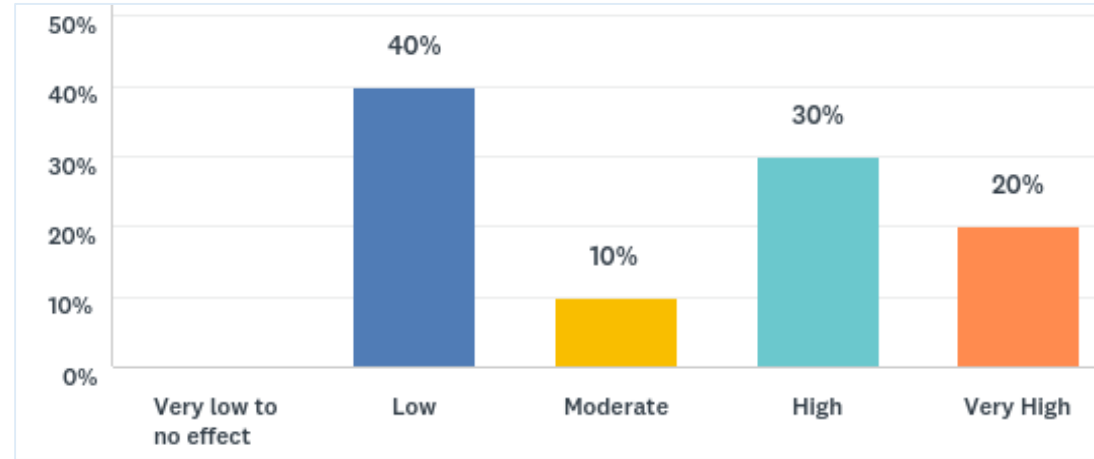
ANALYSIS OF BUSINESS PERSPECTIVES IN SAMPLE SECTORS/INDUSTRIES

C. TOURISM SECTOR

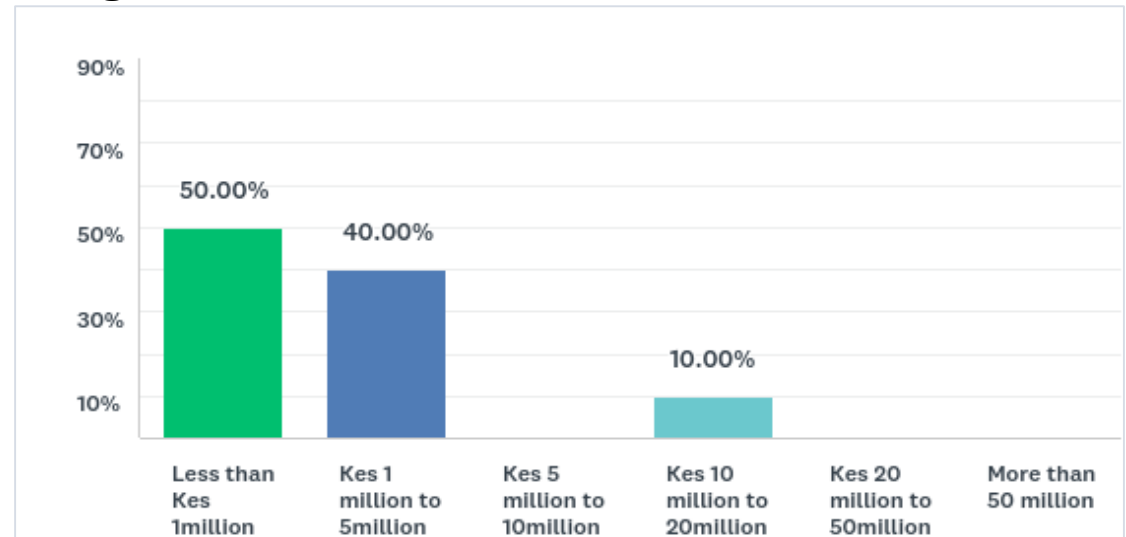
Firms reporting that their businesses have been affected due to Covid-19



Extent of impact on the business activities from Covid-19



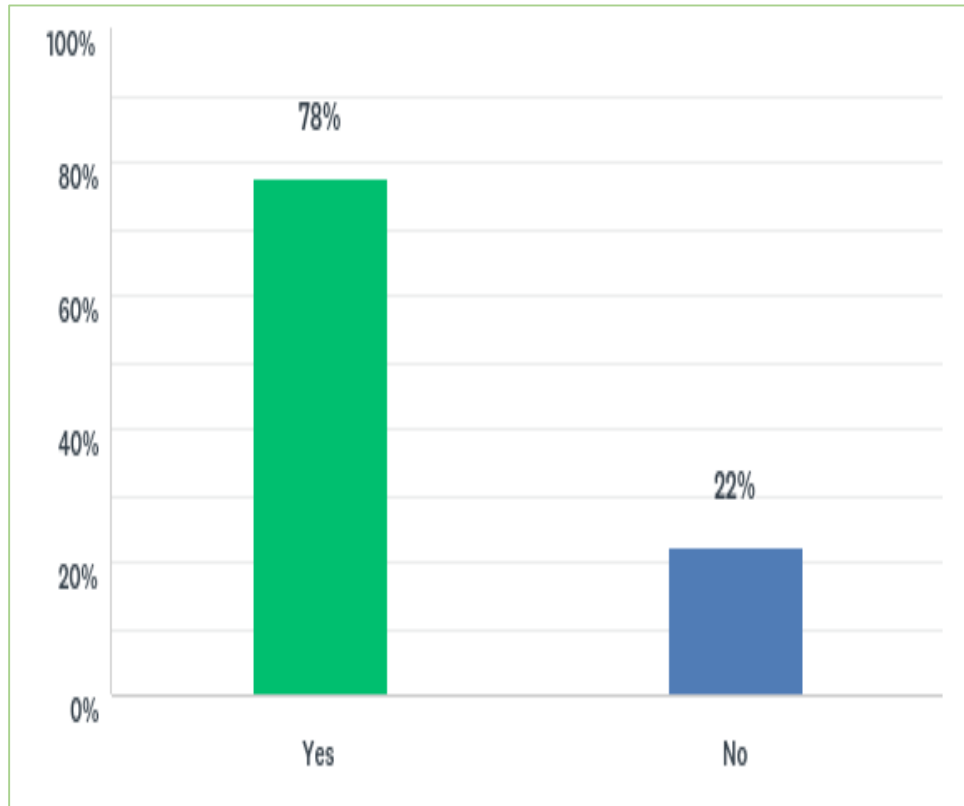
Magnitude of financial losses attributed to Covid-19



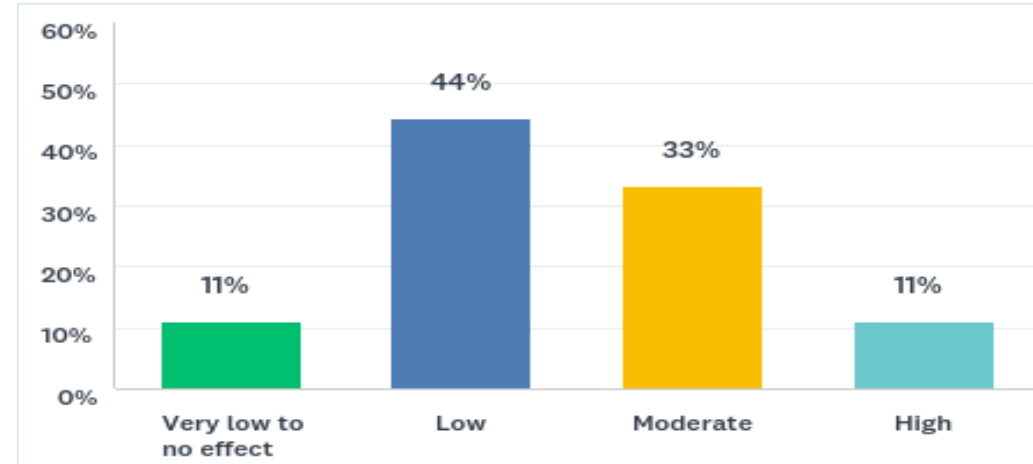
ANALYSIS OF BUSINESS PERSPECTIVES IN SAMPLE SECTORS/INDUSTRIES

D. WHOLESALE AND RETAIL

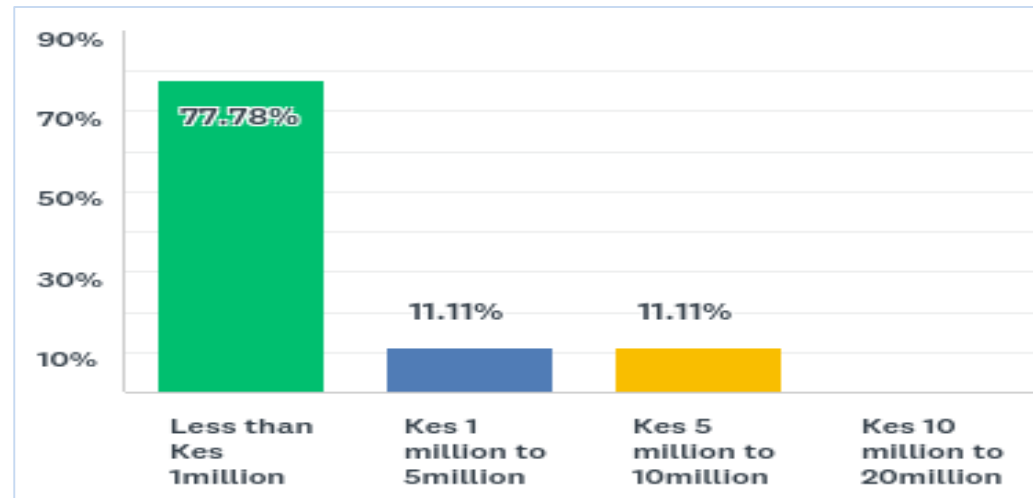
Firms reporting that their businesses have been affected due to Covid-19



Extent of impact on the business activities from Covid-19



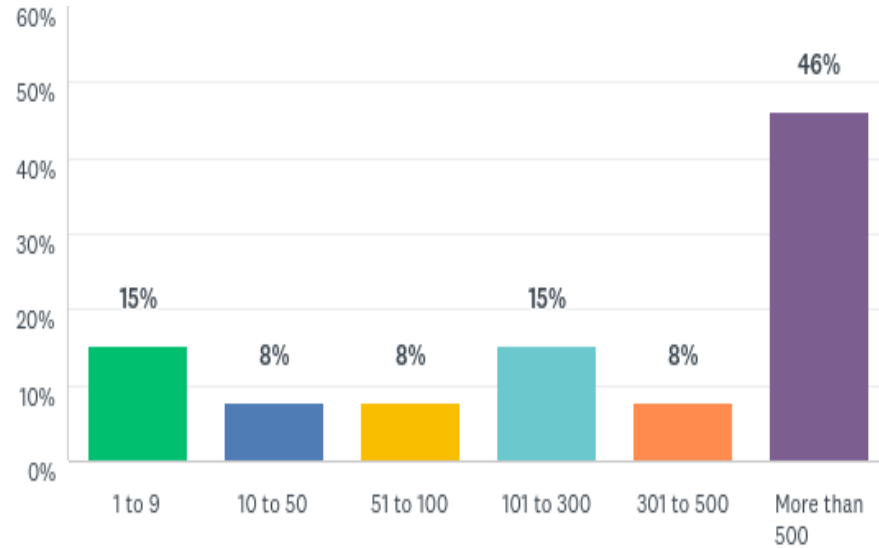
Magnitude of financial losses attributed to Covid-19



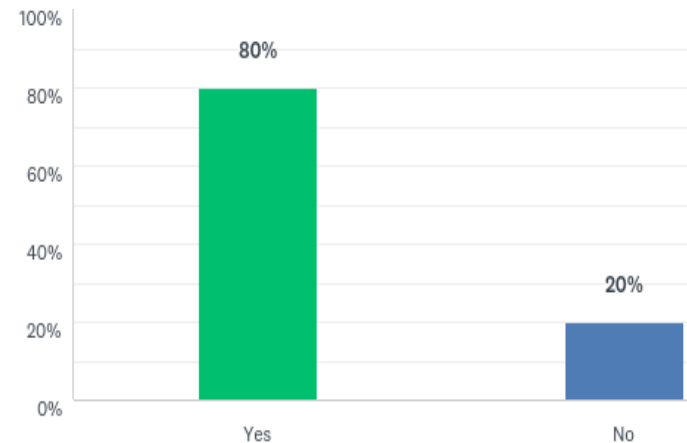
ANALYSIS OF BUSINESS PERSPECTIVES IN SAMPLE SECTORS/INDUSTRIES

E. HEALTH SECTOR

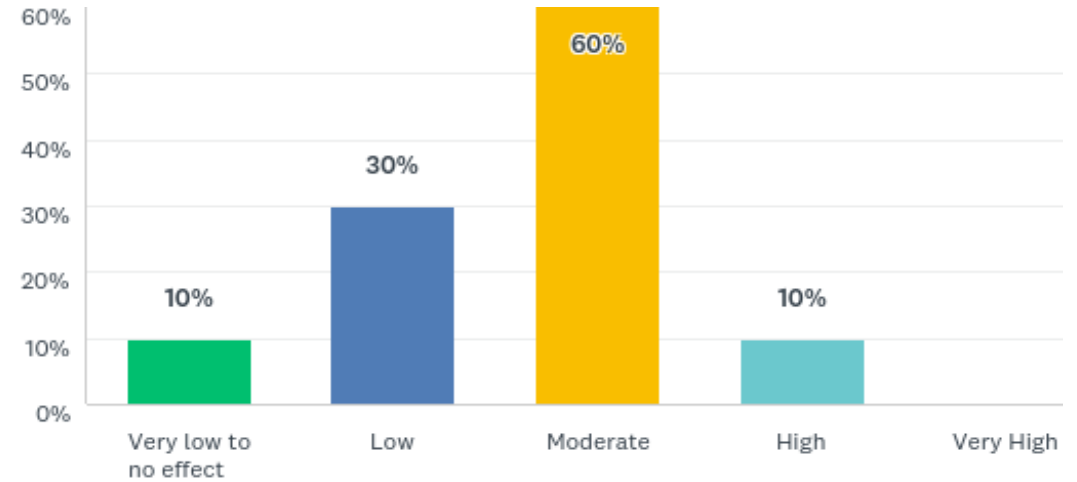
Firms surveyed by number of employees



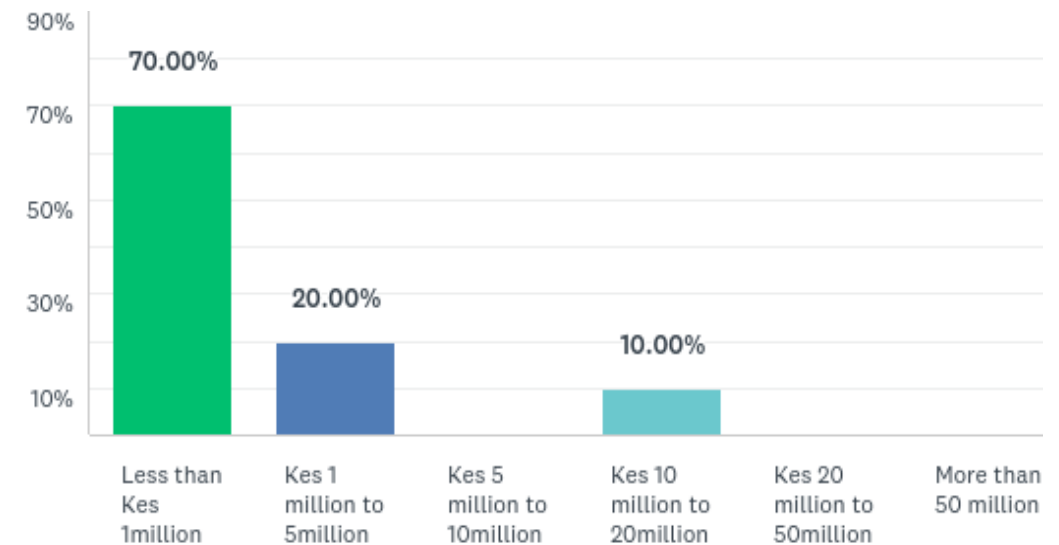
Firms reporting that their businesses have been affected due to Covid-19



Extent of impact on the business activities from Covid-19



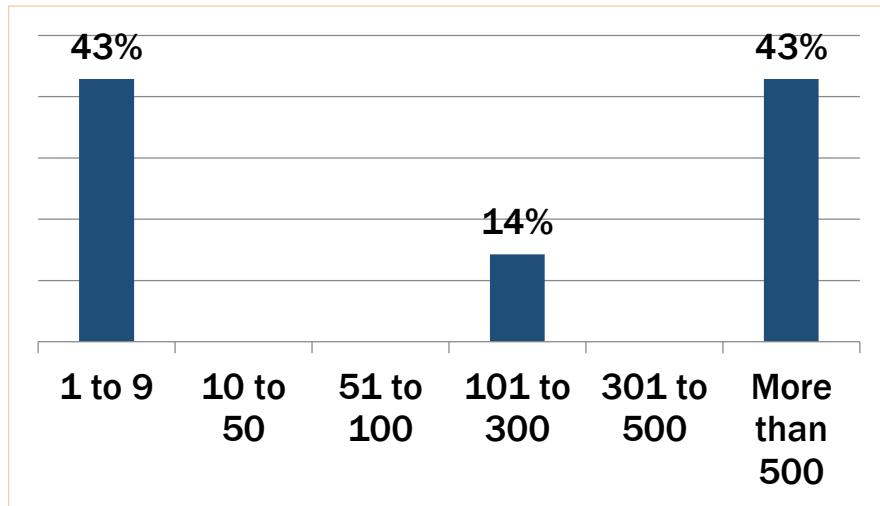
Magnitude of financial losses attributed to Covid-19



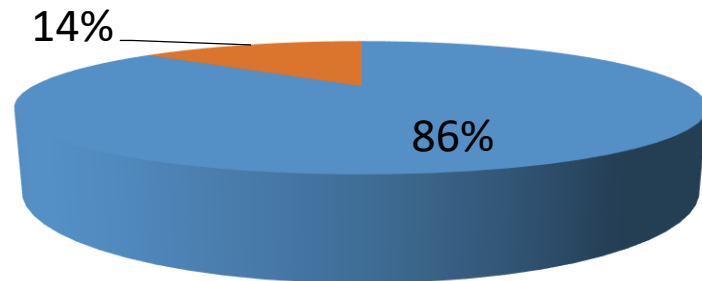
ANALYSIS OF BUSINESS PERSPECTIVES IN SAMPLE SECTORS/INDUSTRIES

F. AGRICULTURE, FORESTRY AND FISHING

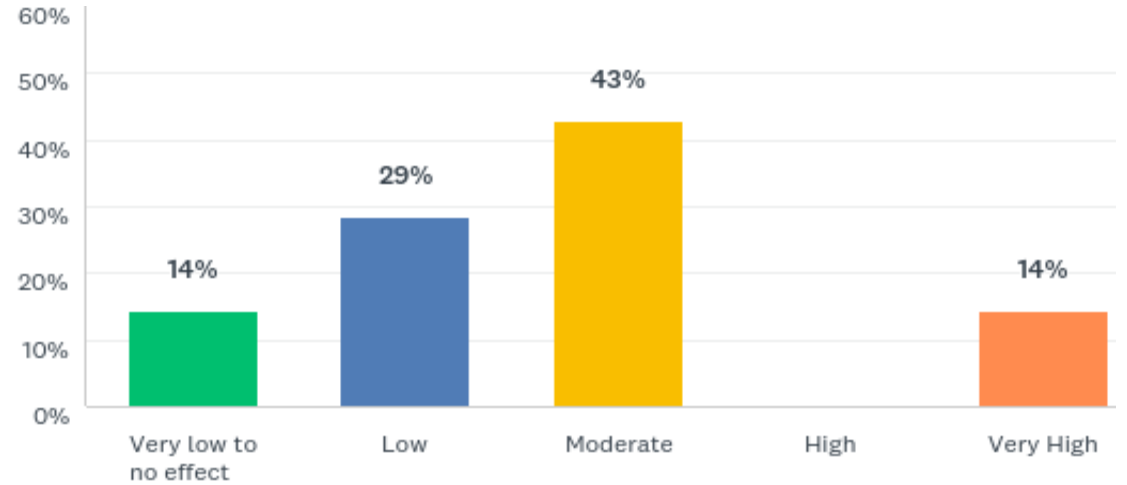
Firms surveyed by number of employees



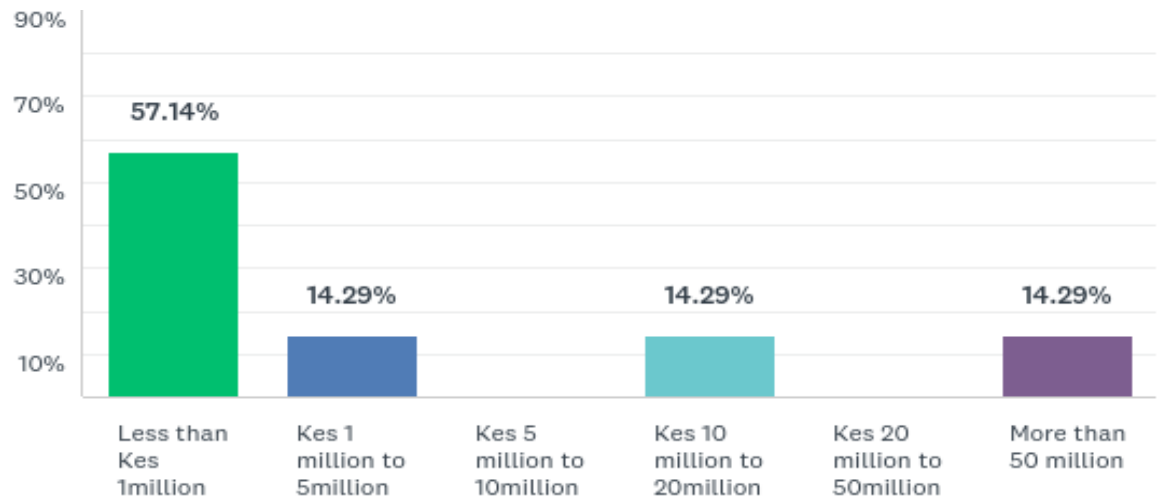
Firms reporting that their businesses have been affected due to Covid-19



Extent of impact on the business activities from Covid-19



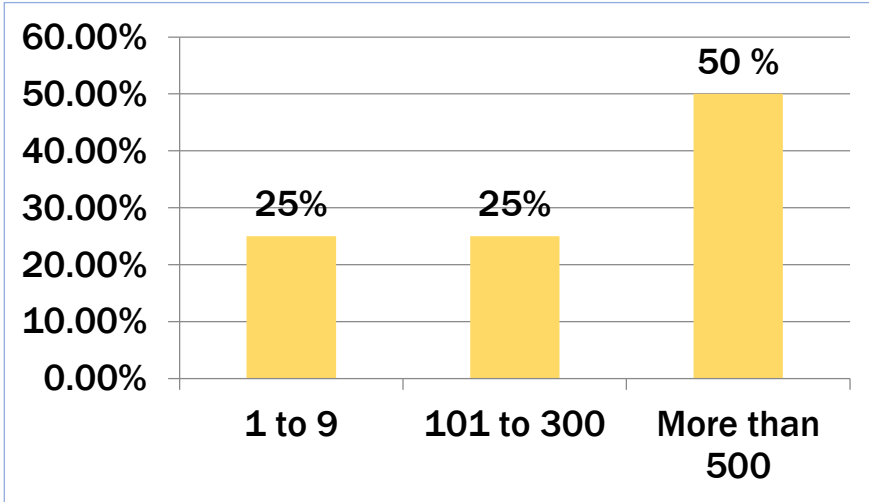
Magnitude of financial losses attributed to Covid-19



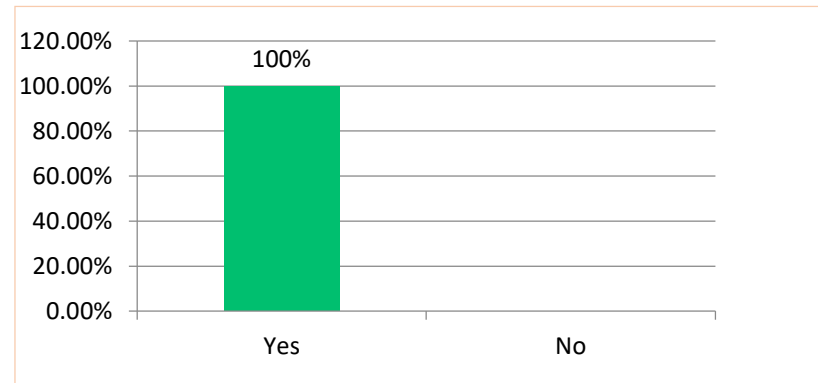
ANALYSIS OF BUSINESS PERSPECTIVES IN SAMPLE SECTORS/INDUSTRIES

G. CONSTRUCTION SECTOR

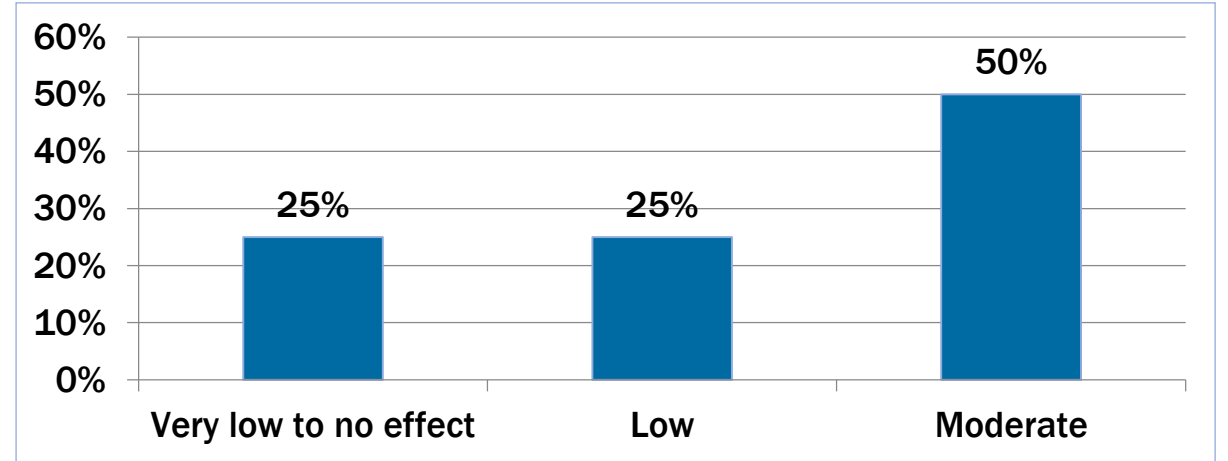
Firms surveyed by number of employees



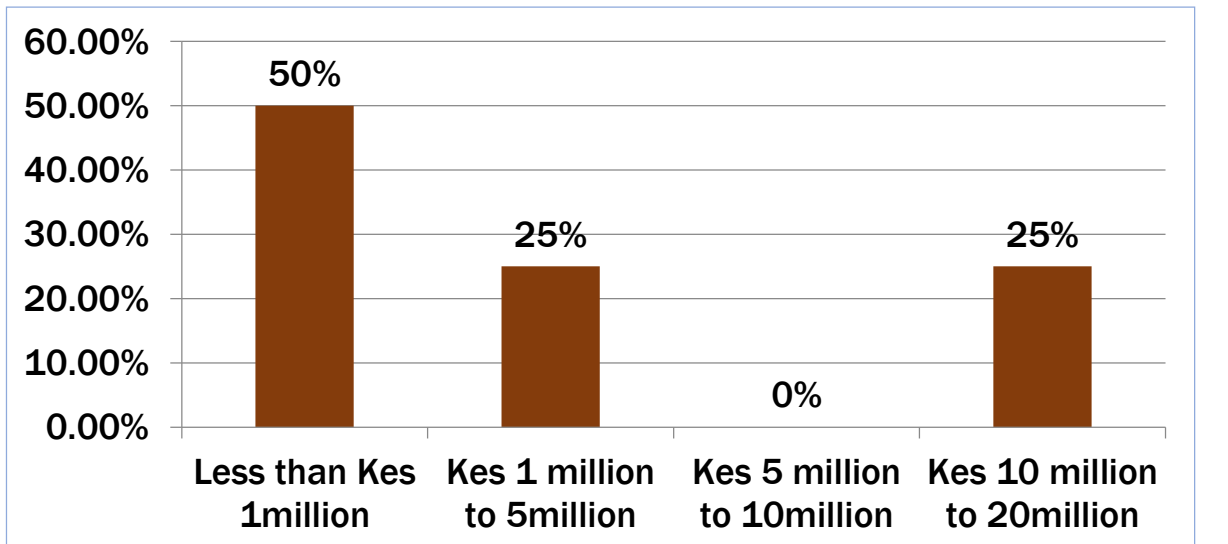
Firms reporting that their businesses have been affected due to Covid-19



Extent of impact on the business activities from Covid-19



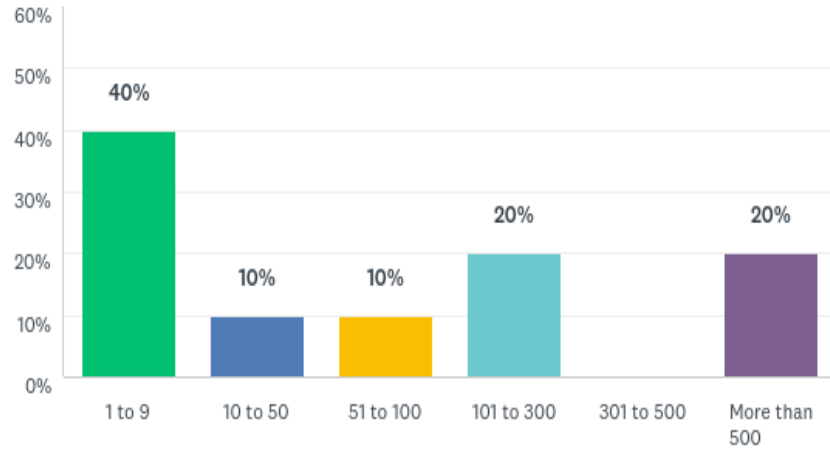
Magnitude of financial losses attributed to Covid-19



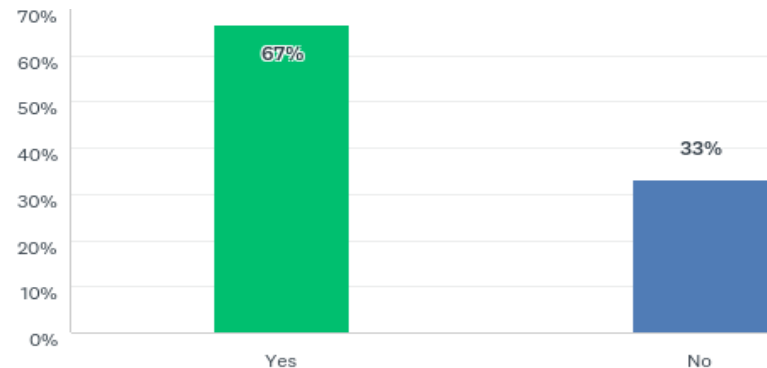
ANALYSIS OF BUSINESS PERSPECTIVES IN SAMPLE SECTORS/INDUSTRIES

H. PROFESSIONAL SERVICES SECTOR

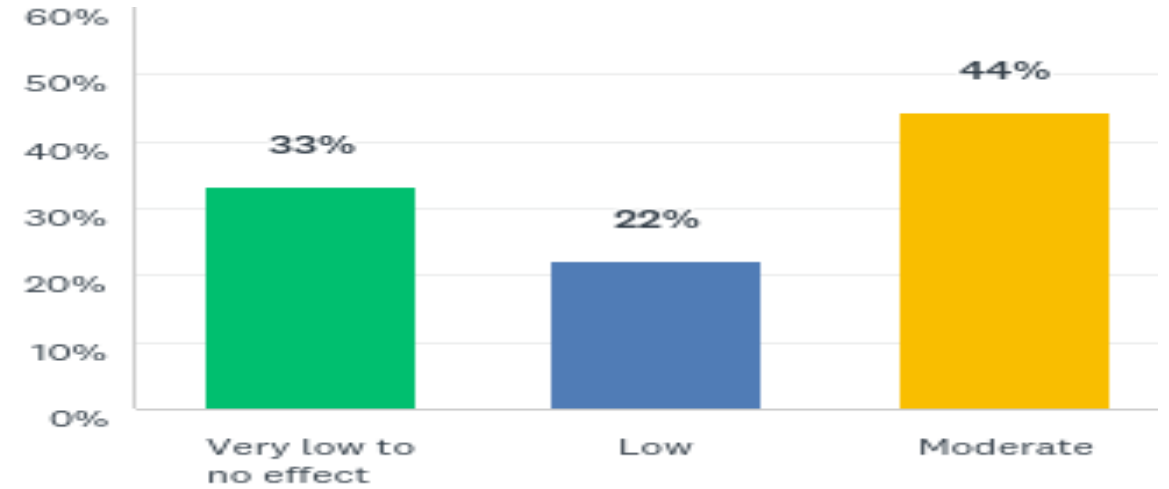
Firms surveyed by number of employees



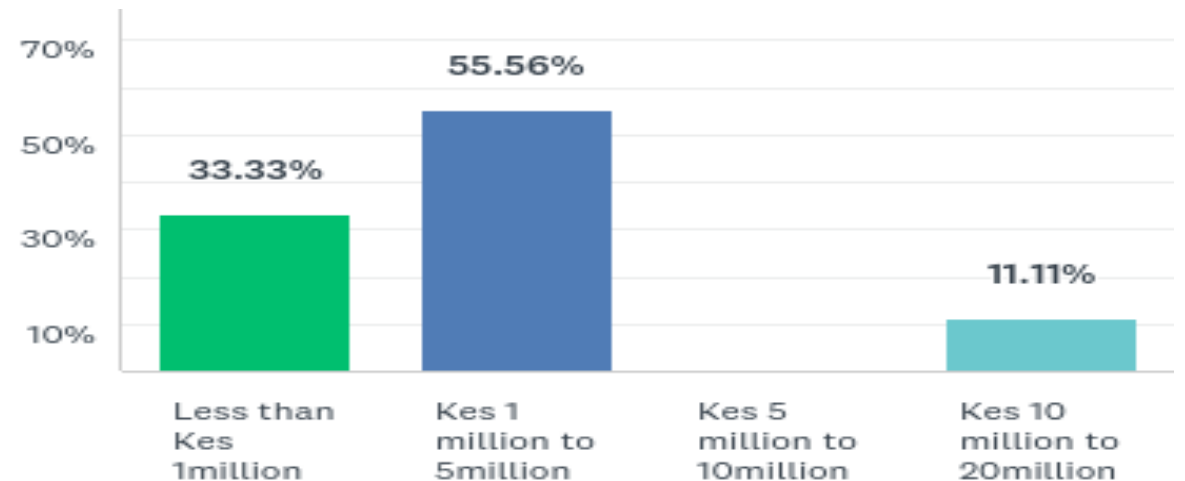
Firms reporting direct effect of their activities due to Covid-19



Extent of impact on the business activities from Covid-19



Magnitude of financial losses attributed to Covid-19





THANK YOU!