**October Newsletter**

NAVIGATING THE COSTS OF DOING BUSINESS IN KENYA

# INSIDE THIS ISSUE



# BUSINESS INSIGHTS

# BY JANTA

## DEAR JANTA COMMUNITY,

Welcome to the latest edition of Janta Kenya's newsletter, where we delve into the intricacies of Kenya's evolving economic landscape. In September 2023, Kenya faced economic challenges, with rising fuel prices and a depreciating exchange rate impacting the cost of doing business in the country. We are dedicated to providing you with the insights and guidance you need to navigate these hurdles effectively.

# NAVIGATING THE COSTS OF DOING BUSINESS IN KENYA

In September 2023, Kenya's economic landscape faced headwinds that impacted the costs of doing business in the country. Rising fuel prices and a rapidly depreciating exchange rate of the Kenyan Shilling against the US dollar led to a moderate economic slowdown, as reflected in the Stanbic Bank Kenya Purchasing Managers Index (PMI). For businesses, it has become essential to navigate these challenges effectively.

**Challenges in the Kenyan Business Environment**

One of the primary challenges facing businesses in Kenya is the surge in fuel prices. The Energy and Petroleum Regulatory Authority (EPRA) increased fuel prices by an average of KSh23.80 in September. This price hike has had a domino effect, significantly raising operational costs for various industries. To cope with these increased expenses, businesses have resorted to raising selling charges to pass on the cost to consumers, contributing to inflationary pressures.

Another factor affecting the cost of doing business in Kenya is the exchange rate depreciation of the Kenyan Shilling against the US dollar. This depreciating exchange rate has led to both input and output prices increasing, with 42% of surveyed firms reporting higher costs. This has created a challenging environment for businesses that rely on imported goods and services, as the exchange rate fluctuations impact their bottom line.

**Impact on Economic Growth**

The economic slowdown observed in September also had a direct impact on economic growth. Firms experienced a contraction in new orders, lower sales, reduced output, lower employment levels, and decreased inventories. Kenya's private sector PMI dropped from 50.6 to 47.8, indicating a moderate deterioration in the economic environment. This drop in economic activity was particularly pronounced across sectors other than agriculture, highlighting the extent of the challenge.

**Optimism and Future Prospects**

Despite these challenges, businesses have maintained positive expectations for future economic activity. Approximately 19% of survey respondents forecasted output growth over the next 12 months. This optimism is often linked to expansion plans. However, there were notable sectoral variations in outlook, with manufacturing firms being the most optimistic about the economic future, while wholesale and retail firms expressed the least optimism.


## Strategies for Navigating Costs in Kenya

To successfully navigate the costs of doing business in Kenya, businesses can consider several strategies:

**Cost Control:** Implement robust cost control measures to mitigate the impact of rising operational expenses. Efficient resource allocation and cost reduction initiatives can help maintain profitability.

**Currency Hedging:** Given the volatility of the exchange rate, businesses reliant on imported goods or services may explore currency hedging strategies to minimize the risks associated with fluctuating exchange rates.

**Diversification:** Businesses can explore diversification opportunities to reduce dependence on specific sectors or markets that are more vulnerable to economic fluctuations.

**Optimizing Supply Chains:** Streamlining supply chains can help reduce costs and increase operational efficiency. Businesses should focus on finding cost-effective suppliers and transportation methods.

**Consumer Engagement**: In response to the increased selling charges, companies should maintain open communication with consumers to explain price adjustments. Transparency can help maintain customer loyalty.

**Conclusion**

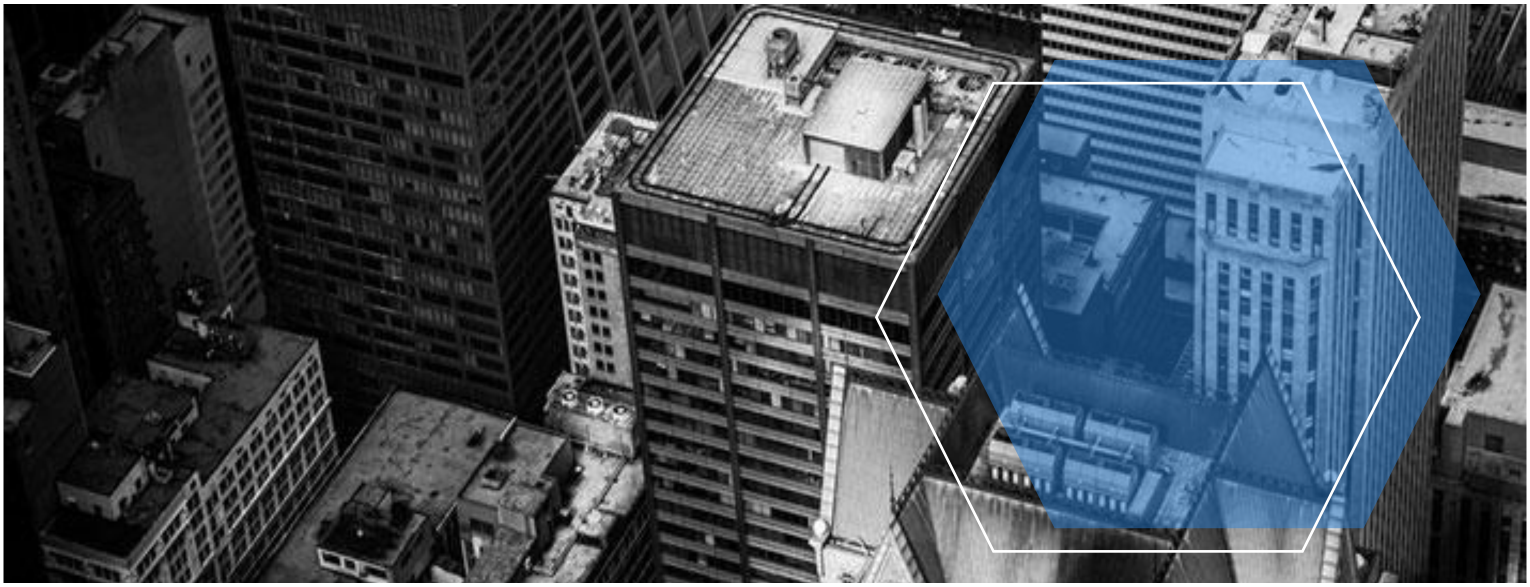
Kenya's economic slowdown in September 2023, driven by rising fuel prices and exchange rate depreciation, underscores the importance of effectively managing the costs of doing business in the country. Despite the challenges, businesses can adopt strategies like cost control, currency hedging, diversification, supply chain optimization, and consumer engagement to navigate these economic headwinds. The optimism expressed by a portion of the business community regarding future growth suggests that with careful planning and adaptability, businesses can continue to thrive in the Kenyan market.

# BUSINESS NEWS HEADLINES

Absa Bank Kenya PLC has responded to a directive from the Central Bank of Kenya (CBK) by increasing transaction limits on its Timiza wallet. In line with CBK's directive, which aimed to enhance financial inclusion and facilitate business transactions, Absa has raised the maximum single transaction limit on Timiza from Sh150,000 to Sh250,000. The daily transaction limit has also been increased from Sh300,000 to Sh500,000. Steve Omamo, Absa Bank Kenya's Head of Digital Channels, emphasized the institution's commitment to meeting evolving consumer needs and offering competitive products. He mentioned that the move is part of their transformation into a digitally powered business, making banking on-the-go more efficient and convenient for customers. This change by Absa Bank aligns with a broader trend in Kenya's mobile money sector, as Safaricom had recently increased its M-PESA transaction limit to Sh. 250,000 for various transaction types. This adjustment aims to empower customers and businesses, providing added convenience for financial transactions conducted via mobile platforms. The move by both Absa and Safaricom supports the CBK's efforts to foster digital payments for services offered to Kenyans and expand financial inclusion.

A Nairobi court has dismissed a petition by the Law Society of Kenya (LSK) challenging the Cabinet's decision to lift the ban on Genetically Modified Organisms (GMOs). The ban had been in place for a decade before the Cabinet's decision to allow the cultivation and importation of GMO food crops and animal feeds. The LSK's petition argued that the GMO crops were being cultivated and imported without the necessary Environmental Impact Assessment (EIA) license. However, the court found no evidence supporting this claim and dismissed the petition. The court also noted that the regulatory bodies involved in GMO approval, including the National Biosafety Authority (NBA) and Kenya Agricultural and Livestock Research Organisation (Karlo), had not violated laws and regulations related to GMOs. The judge's ruling emphasized that Kenya has established robust regulatory frameworks for GMOs, with built-in structures to ensure safety. The court further highlighted that the constitutionality of the GMO laws, both international and domestic, had not been challenged, and the existing regulatory barriers remained in force. The ruling underscores the confidence in the regulatory institutions overseeing GMOs in Kenya and their commitment to ensuring public health and environmental safety.

The Kenyan government is taking steps to alleviate the financial burden on sugarcane farmers, who are collectively owed nearly Sh2 billion by public millers. The Cabinet has approved a 90-day payment plan to support millers in settling their arrears with farmers and employees. Additionally, the National Assembly has approved the writing-off of loans and tax arrears totaling Sh117 billion for public sugar mills, addressing a longstanding issue that has plagued sugarcane farmers. President William Ruto ruled out the privatization of sugar factories during a recent visit to Migori County, citing concerns that it could lead to private firms taking ownership of farmlands. Instead, the government plans to lease struggling sugar factories to revive the ailing sector, including Nzoia, South Nyanza (Sony), Chemelil, Mumias, Muhoroni, and Miwani Sugar companies. The government intends to ensure efficient management and facilitate private sector resources to upgrade these facilities and pay farmers on time.



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In conclusion, the economic challenges faced by businesses in Kenya in September 2023, such as rising fuel prices and exchange rate depreciation, highlight the critical need to effectively manage the costs of doing business in the country. Despite these obstacles, there is room for optimism as some businesses anticipate future growth, especially those in the manufacturing sector. To navigate these economic headwinds, businesses can consider a range of strategies, including implementing cost control measures, exploring currency hedging, diversifying their operations, optimizing supply chains, and maintaining open communication with consumers regarding price adjustments. With careful planning and adaptability, businesses can thrive in the Kenyan market, demonstrating resilience in the face of adversity.

In the broader context of business news, Absa Bank Kenya has responded to the Central Bank's directive by increasing transaction limits on its Timiza wallet, aligning with the trend of expanding financial inclusion and convenience in the mobile money sector. Additionally, a Nairobi court's dismissal of the Law Society of Kenya's petition underscores the confidence in Kenya's GMO regulatory institutions and their commitment to ensuring public health and environmental safety. Lastly, the Kenyan government's steps to alleviate the financial burden on sugarcane farmers, including a payment plan and the approval of loan and tax arrears write-offs, demonstrate a commitment to revitalizing the sugar sector while protecting farmlands from privatization. These developments reflect a dedication to supporting both businesses and the agricultural community in Kenya.

Thank you for staying updated with our newsletter, and we look forward to bringing you more essential business insights in future.