Perspectives on current issues and trends in CIPS/Issue 04 • 2018

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Spot On

CIPS: Consumer and Industrial Products and Services

Spot On is a bi-annual magazine focusing on current issues and trends for businesses in the manufacturing, agriculture, oil & gas, retail, entertainment, tourism and hospitality sectors.

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Introduction

In this edition, we share our insights on opportunities and challenges in the agriculture, entertainment and media, mining, manufacturing, retail and hospitality sectors.

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Theme: Uneven growth and unpredictable changes in the consumer, industrial products and services (CIPS) sectors presents opportunities for the brave and well-informed

Welcome to our fourth edition of the Spot On publication. In this edition, we share our insights on opportunities and challenges in the agriculture, entertainment and media, mining, manufacturing, retail and hospitality sectors. We also look at technology innovation and related risks as cross-cutting trend across the Consumer, Industrial Products and Services (CIPS) sectors.

The Kenyan economy has continued to record an average annual growth rate of above 5% for the last 10 years, even with setbacks from unhealthy election cycles. On the surface, the average growth rate combined with increasing urbanisation, an expanding consumer class and a youthful population, should contribute to a vibrant business environment. But as we all know, it is not that straightforward. There are no easy shortcuts to growing a business in Kenya, whether as an outside investor or as a long-standing industry player.

Steady economic progress coupled with rapid urbanisation, demographic shifts, and technological breakthroughs (internet of things) continues to shape and disrupt the business environment in Kenya and beyond, such that businesses in all sectors have to look with fresh eyes at the opportunities and challenges being created. We're seeing a greater need for differentiation and innovation in the consumer, industrial products and services (CIPS) sectors.

Consumers increasingly want experiences and personalised products and services, whether it is an online retail outlet or a digital news feed. Kenya has inspired an entire industry of innovative digital services with mobile money transactions as its backbone.

But the economy as a whole is still too vulnerable to the vagaries of climate change and uncertainty related to taxes and regulations. This is particularly evident in the agricultural and manufacturing sectors.

In this publication, my colleagues share their specialist knowledge and experiences from working with clients to solve important business issues in our environment. Our objective is to help you think through 'what next' for your business. We're confident you will come away with actionable business insights based on the authors' connection of dots between the specific issues and the possible solutions.

I trust that you will enjoy our publication. As always, we welcome your comments or the opportunity to discuss these trends with you in more detail.

Agribusiness, food security and the future of farming in Kenya

The drought in 2017 is just the latest reminder that Kenya's entire agriculture sector must evolve so that we can address very real threats related to food security and access to land and water.

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The prolonged drought conditions in 2017 that swept across Africa brought into focus the persistent food security and land utilisation issues in African countries. In Kenya's Laikipia region, drought re-awakened severe conflict over grazing land and property rights.

A lasting solution to the recurrent effects of drought conditions is to re-think how best to utilise natural resources like arable land and water. For Kenya's agricultural sector, this means moving away from a reliance on rain-fed agriculture towards a technology-enabled approach to achieve improvements in yields, efficient use of water through irrigation, better routes to market and value addition.

Traditionally, farming in Kenya has been practised by performing a particular task, such as planting or harvesting, according to a predetermined schedule.

Routes to market may have been inefficient, but most agriculture was subsistence-oriented or communally traded and so foreign markets or value-addition meant very little to small-scale farmers. The large scale export-oriented businesses apply fairly advanced practices but these have not necessarily been usefully adopted by the small-scale producers.

All of that is changing and the drought in 2017 is just the latest reminder that Kenya's entire agriculture sector must evolve so that we can address very real threats related to food security and access to land and water.

Agriculture in the context of Kenya's economy

In Kenya, food prices are soaring but the demand for food is constant or growing. Small-scale farms are being subdivided into smaller and smaller parcels. The population is growing, urbanisation is increasing, and real estate developments are increasingly encroaching on farmland. At the same time, agriculture remains the single largest employer of Kenyans.

Given its importance to our economy, we must prioritise the effective use of land and water for agriculture. Technology and effective government policies can work hand-in-hand to advance our agricultural sector beyond subsistence to a position where we are contributing to global food security.

The right technology, in the right place, at the right time

The number and variety of new agricultural technologies is staggering. Technology can inform crop selection, farming methods, crop insurance products and access to financial support and the traceability within the food chain. It can enhance land and water use by generating valuable information about land preparation and sowing, crop

health, fertilizer and other input selection, and pest and water management. Technology can improve value-addition and routes to market.

Real-time data from satellites or drones about weather, soil and air quality, water, crop maturity and even equipment and labour costs can be used to make smarter decisions. This is known as precision agriculture and it is powered by predictive analytics. These are just a few of the new and emerging technologies that can contribute to next-generation agriculture.

Why do these technologies matter to Kenya now? To answer that question, first consider the technological innovation currently underway in Kenya's small scale agricultural sector. Various technology applications have been developed, including mobile apps to monitor crops, livestock and weather, with in-built analytics to synchronise that information. Insurance companies are helping farmers to manage risk, offering insurance and additional information about weather and related risks.

Our 'telephone farmers' conduct their rural or urban backyard businesses from their mobile phones. Most people are not just self-sufficient but also selling their products in the neighbourhood. Optimising small-scale farming would help to increase production. And the way to optimise production is to use more advanced technology.

In our ***2016 global CEO survey,*** access to technology was prioritised as the biggest barrier to growth among agribusiness CEOs. Small-scale and commercial farmers agree that it can be difficult to find the right solutions tailored to their particular needs, fund their implementation and maintain the necessary support once technology has been implemented.

These are real challenges, but resolving them is essential to the success of our agricultural sector and the future of food security.

Food security in 2018… and beyond

Agriculture has a critical role to play not just in future economic growth for Kenya but also in global food security. Food security is defined as the state in which people at all times have physical, social and economic access to sufficient and nutritious food that meets their dietary needs for a healthy and active life. This framework is based on the internationally accepted definition established at the 1996 World Food Summit.

Although many other factors contribute to food security, agriculture certainly has a role to play. Maximising productivity and ensuring efficient routes to market contribute to food security. Food security is part of ending hunger, one of the global Sustainable Development Goals (SDGs).

Agriculture as a sector contributes to the advancement of many SDGs including gender equality, decent work and economic growth, responsible consumption and production and life on land. We should not discount its value here in Kenya or globally.

Agribusiness and investment

As a business, the focus on profitability, risk management and cost control in agricultural operations is paramount. Agribusinesses need proper records and tools like accounting systems to monitor what is being produced on an ongoing basis. Risk management and compliance is important in enabling the business to reach its goals in a sustainable manner.

For all farmers, the first objective is to optimise the yield per square metre. Second, they need to minimise losses at harvest and at storage. Third, they must maintain the highest quality as their products transit from storage to sale or processing. But before their goods enter the transit process, a farmer must make a decision: to sell as-is or to benefit from value-addition. It is clear that the money now is in value-addition.

Government policies can enable and promote greater value-addition in agriculture, with a knock-on benefit for the manufacturing industry and the value of our exports.

Government can also provide tax incentives and develop export processing zones to attract investment. Investors like agribusinesses and manufacturers of processed goods require a sense of comfort that government policies will be consistent and their property rights respected.

Kenya's agriculture sector is at different stages in different places. But the benefits of technology and the necessity of food security are factors that we cannot afford to ignore. The drought in 2017 in Africa is a painful reminder that agriculture is our lifeblood as well as our Achilles' heel. We can't do without it, and we can do it better.

Always on: The transformation of Kenya's entertainment and media industry

The most significant factor influencing the user experience and diversification of media channels in Kenya is the rising popularity of digital content and digital distribution models.

Fundamental change is afoot in Kenya's entertainment and media industry. Whereas industry players have traditionally focused on two differentiating factors--content and distribution--now they must increasingly focus on a third: user experience. This shift in strategic focus is a matter of survival for Kenya's media firms. Those that are highly diversified in terms of different channels coupled with value added services are likely to offer a more attractive user experience and improved loyalty.

The most significant factor influencing the user experience and diversification of media channels in Kenya is the rising popularity of digital content and digital distribution models. Kenya's media firms are investing in digital platforms to grow traffic and value for advertisers, as well as an improved user experience. And while that value may be clear through metrics measuring hits and shares, the challenge for media firms is to monetise that value and grow revenue at the pace that they want.

The consumption of media has undergone a transformation, with a generation of younger consumers mainly relying on digital platforms as a source of continuous news and entertainment. By the time a media firm releases a news story, for example, most of their audience is probably already aware of it through social media. Media firms have had to redirect their focus on the interpretation of news and other value-adding analysis. Journalists have increasingly continued to use their social media profiles. A social media presence is now a necessary part of a journalist's job. To attract advertisers, there is increased necessity for media firms to provide market analysis informed by data from digital channels.

Challenges include the ability to monetise digital content and piracy or when content becomes available to others without paying. Media firms need sufficient security for their information without compromising the user experience. Another challenge is competition, particularly when there are other players that have earned goodwill in the market. Many media firms--including global players like Facebook--are chasing the same audience of information consumers. The challenge for Kenya's media firms is to provide solutions that are tailored to their consumers and advertisers and to continue building trust in the market.

In addition, the majority of consumers are increasingly accessing news and entertainment through handheld digital

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devices such as smartphones. Media firms have to focus on a culture change in their organisations to adjust to this new consumption patterns in the market. Writing styles have also to change to accommodate smartphone-enabled consumption - shorter, punchier articles with easy social media sharing options that are geared towards an audience that is already aware of the headlines.

We believe that these challenges and changes present real opportunities to grow their businesses. According to ***PwC's annual Entertainment & Media Outlook (the 'Outlook'),*** Kenya's emerging Internet advertising market will continue to expand at a rapid pace, with a forecast compound annual growth rate (CAGR) of 15.9% from 2016 to 2020. Total spending on Internet advertising is expected to rise from US$72mn in 2015 to US$151mn in 2020.

Channel choice: the convergence of television, radio and print media

With the digital migration now fully in effect, many more people in Kenya have access to television through digital decoders and the signal is much clearer than when the transmission was analogue. According to the Outlook, Kenya's television audience has expanded as a result of digital migration with the TV advertising market forecast to exhibit strong growth over the next five years at a 10.6% CAGR, generating revenue of US$401mn in 2020.

Until the digital migration, majority of Kenyans were not accustomed to paying for TV. Pay TV providers have had to look for innovative ways of maintaining subscriber numbers. The design of different channel bouquets and seasonal promotions has helped, but ultimately content drives viewership. So far, local content production has not grown as expected following digital migration.

One threat to the digital decoder pay-TV model is the rise of digital live-streaming content. Whereas the traditional model relied upon TV channels paying a premium to secure the rights to certain types of content, like football matches, increasingly consumers now have more choices including how and where to view. The downside of global streaming channels like Netflix is that their content is neither personalised nor local. Naspers Group, a global internet and entertainment group that owns Multichoice launched ShowMax in the Kenyan market during the last quarter of 2016. ShowMax is a video-on-demand streaming service that is in direct competition with Netflix. ShowMax has included localised content in its service offering to give it a competitive edge.

Other innovations include Multichoice's launch of DStv NOW in 2014 to provide a mobile app allowing consumers to watch live television from their mobile devices. DStv NOW is available in all of the African countries as DStv's satellite services.

Televisions themselves have gotten smarter, behaving like connected devices that allow consumers to flip between streaming movies and gaming, for example. Likewise, there is more competition for consumers' attention. In response, Pay TV companies have invested in the application of software to analyse the behaviour of their customers directly through customer decoders. They can sample and analyse the hours that their customers watch different programmes and use this information to enhance content and advise their advertising clients.

Radio has also transformed over recent years. Not long ago, Kenya had only a few radio stations and certain players dominated the market. Now we have over a hundred radio stations. Diversification in this way has proved cost-effective; after opening one radio station with the related infrastructure in place, the costs of additional stations declines.

The key thing that seems to have changed in the radio sector is the proliferation of vernacular radio stations and the targeted advertising that these stations attract. For example, an agricultural inputs business can now place advertisements targeting specific local farming audience.

According to the Outlook, Kenya's radio market is entirely made up of advertising revenue and grew 7.8% in 2015, reaching US$319mn. The market will continue to see stable growth for the next five years with a forecast 6.8% CAGR. By 2020 total radio advertising revenue will rise to US$444mn.

Over the last several years, newspaper revenue has not grown as expected for Kenya's media firms. Their clients are looking for other more cost-effective avenues for advertising. Total newspaper revenue of US$117mn in 2011 has grown to US$175mn in 2015, according to the Outlook, and is forecast to reach US$209mn by 2020. Paid circulation goes on growing slowly, with total newspaper circulation revenue forecast to rise by a 4.8% CAGR.

This growth rate should be considered in light of changes to the dissemination of media content. The cost base does not change significantly as media firms move towards digital content, whereas the growth of advertising revenue and circulation should increase steadily--as long as media firms aggressively grow digital content.

We can expect print revenue to grow at a slower pace or even decline, but print could also follow circulation revenue trends. New formats like newspaper supplements speak to specific issues in the market and attract paid advertorials. In print, smaller players, more competition and new players (including free papers and online-only news outlets) are putting pressure on the cover price of the papers.

In view of the above, media firms have to take a hard look at their operating costs with a view of achieving ways of delivering news and entertainment more efficiently. They have to review their business processes and structures for collection, analysis, design and distribution of content to achieve greater connectedness and convergence. Such reviews may include modernisation of design formats and printing equipment to give advertisers more options and drive cost efficiencies.

As much as media companies are trying to transform themselves, the changes afoot may not play out as expected and media companies will need to be more agile than ever before. Media consumers increasingly demand a one-stop-shop experience, similar to their consumer experiences in other sectors. They want personalised and convenient content that is technology-enabled and entertaining. This is a tall order for Kenya's media companies but so far they are rising to the challenge.

Cross-border trade: Are the import duty incentives granted under the EAC effective?

The East African Community (EAC) trade database showed a remarkable increase in trade between 2011 and 2012 after which trade growth has decelerated continuously to date.

The East African Community (EAC) common market was formed with certain aspirations in mind. It was expected that intra-EAC trade would grow while non-tariff barriers (NTBs) would be eliminated to facilitate regional trade. Increasingly, there is a resurgence of NTBs coupled with numerous trade facilitation challenges across the Partner States.

The EAC trade database showed a remarkable increase in trade between 2011 and 2012 after which trade growth has decelerated continuously to date. Further, it is notable that the bulk of exports from EAC countries continues to be destined to the European Union and not the intra-EAC trade block.

Key to trade facilitation was the EAC Duty Remission Scheme that was centralized under the EAC while the various Partner States' duty remission schemes were subsumed under one umbrella. It was expected that this centralized EAC scheme would afford incentives to the 'local' EAC manufacturers and thereby enable them to compete against imports from outside the EAC. This has not come to fruition.

Kenya and the other EAC countries are losing valuable investment in manufacturing due to the cross-border trading barriers faced by manufacturers within the EAC. There is a need for effective solutions to address barriers to investment including effective administration of the duty remission scheme for intra-EAC trade. Clear and consistent application of the scheme--as it is intended--will also encourage more investment in the EAC by foreign manufacturers.

The EAC duty remission scheme (DRS) was set up such that local (EAC) manufacturers are incentivized through preferential rates for raw materials that would be used to manufacture goods for the EAC market. Further, to grow the export market outside the EAC, another incentive removed the duty on raw

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materials on condition that the goods produced are sold outside the EAC.

This scheme is available to manufacturers in all of the Partner States and is expected to be administered in a similar manner across board. However, the Partner States may institute administrative measures to control the importation of goods imported under the DRS which shall be communicated to other Partner States through the EAC Secretariat.

Prior to 2008, the EAC countries had various schemes. For instance, Kenya had EGPSP - Essential Goods Production Support Program (for manufacture destined for Kenya) and EPPO - Export Promotion Programs Office (for goods destined for other countries). These two schemes were administered under the Tax Remissions for Export Office (TREO).

Thereafter, when the old duty remission programs were repealed in 2008, the EAC Partner States were allowed to come up with administrative measures that would ensure that the scheme operates smoothly.

The EAC published new regulations and a manual to guide the Partner States in their uniform and equitable administration of the law pertaining to the DRS. This would ensure that any taxes paid by a manufacturer gazetted under the DRS for a specific raw material in one EAC country would be the same for another manufacturer using the same input in any other Partner State. Further, any consequences of non-compliance would be standard across the board.

Various challenges have faced users of the scheme rendering it increasingly ineffective. First, in certain Partner States goods produced by manufacturers that are gazetted for both local and export markets have been stopped at the entry points into those countries.

The reason given is that the destination States cannot tell whether the raw materials used were for goods destined for intra-EAC or out of EAC markets. Based on this, a number of the scheme's users have either opted out of the scheme in totality or chosen to pay duties in order to have access to the destination market(s) in the EAC. This defeats the spirit of the EAC common market.

Second, there have been various interpretations used for classification of certain raw materials coming into the EAC. These raw materials have been treated as such in certain countries while being treated as either intermediate or finished goods in other countries, thereby creating a distortion in terms of duties payable for various manufacturers using the input(s) in their processes.

Third, administration of the scheme differs across the Partner States and many times, the authorities revert to the old Customs laws and regulations to enforce compliance measures on importers and/or manufacturers.

These challenges have seen investors/ importers become disenfranchised resulting in reduced uptake of the scheme and increased scrutiny/ withdrawal by investors who would have invested in the EAC otherwise.

For instance, we have observed investors opting to set up in Ethiopia as opposed to expanding in the EAC based on the challenges they have faced trading within the EAC. If effective solutions are not developed to deal with these barriers to investment, the EAC and all its promises will be another white elephant.

Which way for homebred, local retailers?

Local retailers will have to set their sights beyond the short term.

Kenya and the East Africa region has continued to attract leading pan-african and global retailers looking to establish a footprint in the region. The influx is attributable to a positive demand outlook in the region driven by growing disposable incomes, urbanization, youthful population and increasing access to information through internet.

The combination of these factors has created a fast growing base of aspirational consumers, who are brand aware, health conscious and more critical of what they choose to buy.

The entry of global players is creating a new competitive landscape for the local retailers. To survive in the long run, they have to find ways and means of differentiating their businesses and competing profitably.

In addition, they have to stay alert to the dangers of oversupply in the retail sector adding complexity to the operating environment and pressure on margins.

Local retailers will have to set their sights beyond the short term. Their aspirations, clarity of vision, precision of purpose and the subsequent positive transformation in the marketplace needs to be anchored in the establishment of an ever relevant and dynamic competitive advantage.

This could be in the form of a unique value proposition, correct product mix or experiential-based marketing. Clarity on what growth means to the local retailer cannot be overemphasised; is it profitability, an expanding footprint, warding off competition and thus protecting 'the base', innovation, or a well-thought-out product mix? Each retailer will need to find a magical combination to ward off the insurgence of formidable competitors.

A smart retailer is nimble enough to respond to customer needs on time and in a sufficient manner, leaving them fully engaged and not 'shopping around' for alternatives.

Interactions with the customer should be supported by precise market insights that leave the consumer with the impression that the retailer cares about what matters to them. One very critical aspect of ensuring loyalty is creating a consistently memorable experience when consumers purchase or interact with the products and service offerings, creating a 'feel good' effect.

I believe that a good understanding of the local business environment is a significant advantage for local retailers against the new global entrants. Long established supply relationships and tested route-to-market platforms should also provide good competitive advantage in the short-to medium term.

However, this could easily be whittled away by the new players leveraging on technological advances and improvements in market infrastructure.

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Nevertheless, a combination of these advantages will provide a firewall to the local retailers for sometime.

The retail sector will continue to experience significant disruption and transformation. Whilst a deliberate effort has been made by local players to keep up with overseas competition on technology, more remains to be done.

They should consider new retail models that suit consumers' lifestyles. They should prioritise social media and mobile technology to establish personalised relationships with customers based on individual preferences and behavior. They should, where possible, develop multiple customer interaction channels ranging from online platforms to the nonconventional lower-cost pickup points.

Similar to many other countries, our homebred retailers are mainly family owned businesses - the majority in their first or second generation. Family owned businesses tend to face unique challenges relating to governance, professionalisation and succession planning.

Many of them struggle to professionalise the business and "the family" and constantly grapple with weak governance structures. This tends to limit their ability to effectively develop strategies to respond to the changing marketplace.

Many family businesses have a short-term mentality and owners spend most of their time on current issues, leaving the businesses vulnerable to emerging trends and risks.

The increasing rental costs of formal retail space could also pose a significant challenge to the local retailers as they look to grow their footprint in the modern, upscale shopping malls. The high cost of construction combined with increasing demand of space from new retailers has generally driven up the cost of retail space.

Finally, infrastructure shortfalls, constrained local supplier capacity and high distribution costs will remain areas of concern for local retailers as they compete against deep-pocketed, networked global players. Whoever conquers the supply-chain battle will thrive.

Looking ahead, Kenya will continue to dominate East Africa's economy. Retailers should work to remain in sync with consumers' ever changing needs and create products and services that are relevant and timely.

The local retail players must guard their patch and create a niche anchored in intrinsic value, correct product mix and dynamic ways for consumers to experience their products and services.

What's next for Kenya's hotels sector?

The increase in the development of new hotels and the refurbishment of existing ones is an indication of confidence in Kenya's economic growth.

Kenya's hotel sector is experiencing growth, challenges and change. Competition is increasing and putting pressure on hotels to differentiate themselves. Their marketing and the experiences that they offer must be different to reinforce a competitive advantage in the market. Investors in Kenya's hotels sector should look at the sector's growth potential, underlying economic fundamentals and differentiation in equal measure.

PwC's 2017 - 2021 Hospitality Outlook publication projects that hotel room revenue will grow 7.5% compounded annually in response to a rising number of domestic and foreign business and leisure visitors. We project that guests will stay longer and occupancy rates will improve; guest nights are projected to increase from an average of 3.7 in 2017 to 4.4 in 2021, and occupancy rates to increase from 52.5% in 2017 to 57.4% in 2021.

The increase in the development of new hotels and the refurbishment of existing ones is an indication of confidence in Kenya's economic growth. Several new properties under development in Nairobi and some upcountry towns indicate a targeted effort to attract increasing numbers of business travellers who may require specific services like conferencing facilities.

Increasing business traveller demand is driven by Nairobi's position as an East Africa commercial hub and the multiplier effect of devolved government including county economic development.

New investment in tourist-sector hospitality is still limited. The tourism sector continues to face challenges related to insecurity but we have seen steady growth in the number of arrivals for both business and tourism thanks in part to a targeted government publicity campaign.

Local, resident tourism is rising in response to devolution and at the same time, domestic air travel is becoming more affordable.

I would expect that 2018 will be a year of much more business travel, particularly at the county level outside of Nairobi and Mombasa. Economic growth, ongoing investment in transport infrastructure and oil production is likely to spur more economic activity across the country.

Staying competitive

We have seen significant differentiation within the hotels sector and specifically among four- and five-star hotels. Certain hotels have hosted global leaders and international conferences, helping to position them as high-end and world class.

Some offer bespoke, luxury experiences whereas others have focused on amenities attractive to short-term business travellers. Some hotels have gone so far as to bring in Michelin starred chefs to operate restaurants as distinct businesses within the hotel environment.

Others offer a warm cookie at reception or boast exceptionally comfortable mattresses. Whatever the differentiating

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factors, they contribute to the experience and make the experience memorable.

Whether business or leisure-focused (or both), every hotelier tries to distinguish themselves on the quality of customer service.

They also tend to articulate their value proposition by focusing on the quality of the product in a certain price range. Some hotels are making investments to maintain or improve the experience of staying with them whereas others are struggling a bit.

Remaining or becoming relevant could end up being a factor of how much money they have and the willingness of their owners to invest.

Location matters, too. In Nairobi, areas like Upper Hill, Westlands and the Jomo Kenyatta International Airport now host multiple new hotels, some within walking distance of one another.

Conference facilities primarily serve to augment the brand and any sizable hotel is expected to offer conferencing facilities. When conference attendees experience the hotel first-hand or, better yet, stay a night or two, conferencing has served a dual purpose: service to the conference customer and improved hotel brand recognition among attendees.

Investing in Kenya's hotels sector

There are several factors that investors in Kenya's hotels sector should consider. First, government has remained a significant client of the hotels sector, even when Kenya experienced a tourism downturn in 2008 and 2013. Second, devolution has facilitated increased opportunity in Kenya's counties.

While location certainly matters, successful hotel investors also wisely consider whether a well-rounded value proposition truly justifies the investment. Cost and location are not the only factors to consider; a differentiated guest experience matters, too.

Many hotels sector investors have recognised that Kenya provides a range of experiences including business centres as well as safari and beach destinations, all conveniently within short flights of each other.

Nairobi and other cities also offer easy access to the East Africa region. Kenya's hospitality institutes and programmes offer a talented pool of trained professionals, whose quality service and credentials are recognised globally. It is not uncommon to encounter Kenyans working in hotels in Dubai, for example.

Overall, I would encourage investors to be cautious about the current size of the market and competition. This is not to downplay Kenya's advantages but instead to convey realism.

With a competitive and differentiated value proposition, hotels can prosper in the short- and medium-term. But a one-size-fits-all approach is not likely to work in Kenya.

New horizon, better opportunities for Kenya's mining sector

Kenya has made seismic shifts in the regulatory and tax landscape in the recent past.

The question is – how do African countries capitalise on the positive market conditions to strike the right balance between tax and revenue measures, while still allowing sufficient return on the capital invested by miners to stimulate growth of the mining sector?

This is a question that PwC posed and addressed in a September 2017 publication titled ***"Two steps forward, one step back"*** which looks at the current African tax landscape for mining. The report highlights the adverse impact of mining tax changes introduced in Tanzania in 2016 and 2017 – in particular, it is the least attractive of the countries surveyed, with the model mine having a projected internal rate of return of only 18.5% (as compared to 24.9% in 2015), and government receiving 73% of total project profits. The report concludes that greater economic activity is in everyone's best interests – new mines developed, foreign direct investment, creation of jobs and the opportunity to generate profits from Africa's vast mineral wealth. It is difficult to disagree that a deposit left unmined is of no value to either the host government and its people or the miner who has right of access to it.

In 2017, PwC published the 14th annual review of global trends in the mining industry. The publication, called ***Mine,*** is based on the financial performance and position of the global mining industry as represented by the Top 40 mining companies by market capitalisation. The report says that the mining sector was recovering from 2015's race to the bottom, while the members of the Top 40 paused and drew breath in 2016.

The rapidly rising commodities prices in 2016 promised a way forward. But did they? The narrative of the Top 40 in 2016 according to the report, therefore, reads like a mine site safety mantra: Stop. Think… Act. The industry has stopped feeling so anxious and is now considering "Where to from here?" Some members of the Top 40 stated their intentions, but

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2016 was not a year of action. The report concludes that we can only now wait to see how the industry will advance.

In the last couple of years, Kenya has enjoyed significant investment into the mining sector. Indeed during 2016, Kenya is reported to have exported ilmenite, rutile and zircon from Kwale county worth approximately KES 14 billion according to the annual report of Base Resources Limited.

Ilmenite and rutile are primarily used for the production of titanium dioxide pigment which is a key ingredient in paint, plastics and paper. Zircon on the other hand, is consumed by ceramic tile manufacturers to enhance the opacity of their products.

In February 2017 Acacia Mining plc reported a maiden high grade inferred mineral resource on the Liranda corridor in western Kenya of 1.31 million ounces of 12.1 grams per ton of gold. This put Kenya on the map in terms of exciting locations to prospect for mineral resources. The company also announced a USD 12 million drilling programme in 2017 mainly to test the lateral and depth of the Acacia prospect.

Kenya has made seismic shifts in the regulatory and tax landscape in the recent past. On the regulatory front, the Mining Act in Kenya was published in 2016. Since May 2016, at least 14 new regulations have been published by the Cabinet Secretary responsible for mining. The previous law was hopelessly inadequate having been enacted before the Second War World. The new Act gives the Director of Mines supervisory powers over all prospecting, mining, processing, refining and treatment operations, transport and any dealings in minerals, including import and export of minerals.

In addition the Director of Geological Survey is required to undertake geological, geophysical, geochemical, seismological and hydro-geological surveys, investigations and mapping aimed at defining the character and distribution of rocks and superficial deposits and determining the mineral potential of Kenya.

Critically the Director of Geological Survey is mandated to promote private sector interest and investment in mineral exploration by providing geological information and services to prospective investors.

Some of the regulations that have been published so far cover topics like Community Development Agreement, Strategic Minerals, Use of Local Goods and Services, Employment and Training, State Participation (into new and existing mining companies), Dealings in Minerals, Award of Mineral Rights by Tender.

Reading through the 14 regulations that support the Mining Act, one will quickly see a plethora of forms that need to be submitted to the Mining ministry on a monthly, quarterly and annual basis. This will require all stakeholders in the mining sector to reconfigure their processes and accounting systems to ensure that the punitive penalties for non-compliance are avoided.

The tax law was re-written in 2015 to modernize the legislation with respect to income tax. Specifically the tax law now ring-fences taxable profits or losses arising from mining operations at the level of the license area. Unlike the previous tax law, a miner is allowed to deduct in full prospecting expenditure in the year such expenditure is incurred.

We hope that the implementation of the new regulatory and tax regime attracts and retains mining activities in Kenya.

The rewards of innovation require greater vigilance and fraud prevention

While technology and innovation provide many opportunities for growth, technology could also be deployed as an enabler of fraud.

Kenya is innovating so boldly now that barely a year passes by without a ground-breaking innovation being introduced to the market.

On top of the mobile money transfer sector which the country has received global accolades for, we are now seeing the infusion of Near Field Communication technologies in the generation of mobile money swipe cards and continual growth of government e-services.

We are witnessing a never-before convergence between the telecommunications, banking, insurance, commerce, retail and e-government sectors with far-reaching benefits for Kenyans in terms of financial sector participation and convenience.

According to the CIO East Africa 2015 Mega Trends Report, which PwC co-authored with CIO East Africa Magazine, there is an increasing emphasis by organisations to not just utilise technology but to innovate as well, resulting in the customisation of products and service offerings to meet local needs and address local challenges.

We have indeed seen the results of this renewed focus in areas unseen before hence evolution in the mode of doing business.

In Kenya, the mobile phone has differentiated itself as the default base for most of these innovations. This is attributable to the impressive mobile phone penetration rates and the increasing adoption of smartphones.

The International Telecommunications Union 2016 statistics indicate Kenya's mobile subscriptions at a high of 81.3% compared to a global average of 93%. The reported internet users, at 46% of the population, were higher than global average of 41%[1].

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The above statistics coupled with the popularity of social networking and favourable market reception of mobile phone based services have made the mobile space very attractive for business innovations in the country.

As a result of mobile-based innovations, organisations have been able to grow their reach, boost customer loyalty and brand value, save costs and reduce business cycle times. This is manifested in the enhanced interdependence and connectivity between the various players in the business cycle.

On the flipside, the ensuing fluidity of interactions among the various players in the business environment has exposed a soft underbelly of fraud risks. Customer orders are being logged on the go by sales representatives while business executives are tracking business performance metrics from the comfort of their homes.

This flexibility has blurred the line between employee's work and private life hence diminishing the perceived control on certain business processes and information. As a result, organisations are now faced with increased cases of bribery and corruption, insider dealings, money laundering and cybercrime among other fraud risks.

The last two have featured prominently in the Kenyan press in the last two years; with some of the cases still undergoing litigation.

The increased fraud risks highlighted above are also reflected in the ***PwC's 2016 Global Economic Crime survey ("GECS 2016")*** which reported 33% of Kenyan correspondents as having experienced cybercrime threats and incidents in the period.

It is worth noting that 32% of these reported having suffered significant financial impact from the encountered incidences of cybercrime threats.

While the concern of over exposure to fraud risk might be greater than the actual occurrence, the costs of not investing in an organisation's control environment by specifically having a fraud risk management framework in place to both deter and respond to reported fraud incidences, far outweighs short term savings obtained from cost cutting steps and hoping for the best.

Organisations should consider having in place fraud detection and control strategies that integrate with security measures of the business channels in place, such as mobile phones for instance.

This would enable implementation of comprehensive detection and control mechanisms while minimising friction over the business processes. The fraud detection and control strategies should be continuously revised to reflect new developments as no system can be impervious to all possible fraud risks.

We should therefore not lose sight of the fact that while technology and innovation provide many opportunities for growth, technology could also be deployed as an enabler of fraud.

[1]*http://data.worldbank.org/indicator/IT.NET.USER.ZS?view=chart*
International Telecommunications Union, World Telecommunication/ICT Development Report and World Bank database.

Embracing digital healthcare in Kenya

Developing countries have invested and built strong vertical programs targeting specific diseases, but very few have invested in strengthening systems for health as a whole.

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Whether we like it or not, the digital revolution is upon us and technology has come to play an integral role in all facets of our lives. Over the years we have seen technology become embedded across all industries ranging from banking, telecommunications, retail, insurance and even government. Kenya is no stranger to this digital revolution with mobile money platforms allowing those who were previously financially disenfranchised access to financial services.

Kenya's embrace of technology can also be seen in the public sector, with e-government helping provide access to services previously burdened by laborious manual processes and red tape. Kenyans will know the most infamous among these processes previously included getting a new national ID or driver's license.

Digital healthcare, particularly in developing economies has been slower in the uptake of the technology revolution. In an industry that discourages all but the most prudent, high-return investments, the numerous benefits that digital technology can provide to the quality of patient care offered and reduced costs over the long term are at risk of being overlooked.

The digital healthcare dilemma

In Kenya, the health agenda has focused on disease centered programs such as maternal and child health, HIV, malaria, tuberculosis and immunization. And rightly so, these diseases still account for an overwhelming majority of deaths in the country.

Unfortunately this comes at the expense of broader health system strengthening programs such as health infrastructure, health financing, medical equipment and digital health.

As a result developing countries have invested and built strong vertical

programs targeting specific diseases, but very few have invested in strengthening systems for health as a whole.

As incomes rise and the middle class grows, people are spending more on healthcare and demanding better healthcare services. With changing lifestyles and people living longer, Kenya's life expectancy has risen from 51 years in the year 2000 to 62 years in 2014.

What this means is there is a tectonic epidemiological shift from communicable to chronic disease such as diabetes, cardiovascular diseases and cancer in developing economies like Kenya.

Developed economies also have their challenges with affordability of care. The key difference however is their fundamental infrastructure is in place and their population growth remains relatively steady.

We have observed across other industries that consumers are no longer passive patients, but have become engaged, with access to new tools and better information.

The Kenyan health system is currently struggling to cope with the rising cost and demand for quality health care services, against the backdrop of a shortage of skilled health care professionals.

The shift to digital healthcare solutions

Traditional digital health solutions such as Electronic Health Records (EHR), which are popular in the developed markets, require significant initial investment to purchase, install and maintain.

It is for this reason that adoption in the developing economies has been low. But new, non-traditional solutions such as cloud-based or open-source EHR can help health providers digitise at a fraction of the cost.

For best outcomes, other healthcare innovations such as telemedicine, mHealth applications and e-prescriptions should be built around the EHR. There is an opportunity for Kenya to leverage on its growing internet penetration via mobile to design more cost effective solutions to leapfrog the developed nations to provide quality, affordable, and patient-centric care. Technologies such as mobile phones and internet, that have a high penetration rate in Kenya, can help to improve access to medical services.

Kenya has been at the forefront of adoption of mHealth, which are health solutions through the mobile phone. This can help free up congested health facilities from dealing with non-life-threatening conditions to allow them more time to provide better care to patients that require more critical care.

In addition to improving service delivery, automation has the potential to improve the management of financial resources. Health facilities suffer significant revenue leakage due to manual processes which can result in services provided not being accurately recorded and billed. By automating the tracking of services provided to a patient from registration to discharge, human error is reduced and more accurate billing can be achieved.

Convenient payment options such as mobile money can also improve debt management and cash flows. Automation can help ensure that better management of drugs and other medical inventory items to minimise loses, prevent understocking which results in having to send patients to external pharmacies or overstocking resulting in expiry of drugs.

Digital healthcare is not simply about the tool that will be implemented but rather a combination of the technology, people and processes that come together to find better and cost effective way of catering to patient needs.

Rather than viewing investment in digital healthcare as an added expense, healthcare providers should view digital healthcare as part and parcel of their strategy for reduction in costs and continued growth of services offered.

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