

## AFRICA RISK CONSULTING

### Kenya Monthly Briefing October 2021

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#### Kenya Summary 13 October 2021

*President Uhuru Kenyatta (2013-present) continues to manage the health and economic consequences of the Covid-19 pandemic, buoyed by optimism over the United Kingdom (UK) removing Kenya from its travel “red list”. While the travel industry is trying to regain momentum, concerns are growing over the country’s debt burden. The Central Bank of Kenya (CBK) Monetary Policy Committee (MPC) keeps the interest rate stable at 7%. Tension between Somalia and Kenya is likely to persist after the International Court of Justice rules in favour of Somalia in regard to a protracted maritime dispute.*

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#### Battle against Covid-19 continues amid some positive news ...

President **Uhuru Kenyatta** (2013-present) continues to juggle **Kenya’s** economic and social needs amid the continuing **Covid-19** pandemic. Confirmed cases of Covid-19 in Kenya’s population of roughly 55 million have surpassed 250,000, placing significant strain on the country’s healthcare system, while Covid-related complications have claimed over 5,000 lives.<sup>1</sup> Curfews remain in place with seemingly little appetite to see them lifted, although the health ministry has assured voters that elections will proceed in 2022 despite the pandemic.<sup>2</sup>

The government continues to actively encourage its citizens to be vaccinated against Covid-19. The arrival of an additional 252,000 **Johnson & Johnson** vaccines on 6 October has boosted the country’s supply of vaccine doses. The health ministry estimates that nearly 4 million Kenyans have been vaccinated to date, with plans for an additional 1.8 million people to receive a Covid vaccine by 20 October, a seemingly ambitious target.<sup>3</sup> Although there is currently no indication that so-called “vaccine passports” will be necessary to gain entry to social events and workspaces, the government announced on 21 August that its employees must be vaccinated or risk punishment.<sup>4</sup> Teachers are facing similar threats.

Positive news for Kenyatta and Kenyans came with the **United Kingdom (UK)** transport departments’ announcement on 17 September that it has removed Kenya from its travel “red list”.<sup>5</sup> The change in policy means that those flying from Kenya to the UK will not have to quarantine in government-approved hotels at their own expense. Kenya was removed from the red list almost a month before the UK announced on 8 October that all **African** countries are off the red list, with just seven countries globally remaining on the list.

The ability to travel directly between the two countries and without mandatory hotel quarantine is likely to boost travel between the two key trading partners significantly. On 1 October, partially state-owned **Kenya Airways** added flights to UK destinations.<sup>6</sup> Kenya Airways is also looking at other ways to support itself after a tough 18 months. The company announced on 28 September that it had signed a memorandum of cooperation with **South African Airways** in a bid to develop a pan-African airline.<sup>7</sup> It is unclear at this stage what this agreement entails.

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<sup>1</sup> Nation, 2 Oct 2021

<sup>2</sup> Business Daily, 23 Sep 2021

<sup>3</sup> Africa News, 6 Oct 2021

<sup>4</sup> Bloomberg, 10 Aug 2021

<sup>5</sup> The East African, 17 Sep 2021

<sup>6</sup> Business Daily, 1 Oct 2021

<sup>7</sup> The East African, 28 Sep 2021

## Central Bank holds rate at 7% ... again

Kenya's broader economy continues to face challenges amid reports that over half the firms listed on the **Nairobi Stock Exchange** have failed to return to their pre-Covid prices.<sup>8</sup> Noting the backdrop of the continuing global Covid-19 pandemic, the **Central Bank of Kenya (CBK)** Monetary Policy Committee (MPC) decided at its bi-monthly meeting on 28 September to keep the central bank's interest rate at 7%, having held the rate at this mark for over a year.<sup>9</sup> The MPC said in making its decision it considered the implications and outcomes of the measures implemented to mitigate the adverse economic effects and financial disruptions from the pandemic.

The MPC noted that overall inflation was at 6.6% in August, higher than the 6.5% in July. This was attributed to an increase in both food and fuel prices. The economy contracted by 0.3% in 2020, largely attributed to the pandemic, however, the committee noted that a strong recovery was expected in 2021, with sectors such as real estate, transport, manufacturing and constructing helping the economy to recover.

Concerns over public debt persist, with the CBK presenting its views to the senate committee on finance and budget on 15 September on Kenya's debt sustainability. The CBK noted the **International Monetary Fund's** assessment of Kenya's debt situation as being sustainable, but with a high risk of debt-related distress:

*"Kenya's debt was subjected to lower thresholds and benchmark during this assessment due to a downgrade in the debt carrying capacity from strong to medium debt carrying capacity majorly due to subdued world growth driven by the COVID-19 pandemic."*<sup>10</sup>

The assessment noted a weakness in the robustness of many of Kenya's state-owned enterprises, declining exports and the general impact of the pandemic on the economy.<sup>11</sup> Key areas of concern include high deficits, accrued from past lending. Concerns around debt sustainability are likely to continue until the administration puts in place, and implements, a strategy to pay down the debt.

Leading up to the bi-monthly MPC meetings, the CBK undertakes a **Market Perceptions Survey** of private sector respondents and as of March 2021 also undertakes a survey of chief executive officers (CEOs). Respondents to the CEO survey expressed optimism around prospects for growth, particularly in the services sector. Optimism was largely spurred by the government's containment measures around the pandemic and global economic recovery. CEOs also reported increased business and sales volumes in Q3 of 2021 versus Q2.

Despite concerns about increased input costs, CEOs demonstrated optimism for business in Q4 and growth prospects for 2021, with a sense that the country is in recovery with the pandemic contained amid the Covid vaccine rollout. Respondents were optimistic about increased consumer demand in the lead-up to the holiday season at the end of the year. However, concerns remained regarding market uncertainty and political stability ahead of the 2022 elections.

Optimism is likely to continue to increase as the holiday season approaches, with the Covid vaccination programme helping to allay some of the fears of businesses. In the new year attention is likely to focus on election campaigning, with its possible impact on security and stability affecting Kenya's attractiveness as an investment destination, even if only in the short term.

## Kenya loses at the International Court of Justice

Kenya's uneasy relationship with its northern neighbour, **Somalia**, has suffered a setback with the **International Court of Justice (ICJ)** ruling on 12 October in Somalia's favour in a protracted sea border dispute with Kenya.<sup>12</sup> The disputed area in the maritime boundary is a 100,000 square

<sup>8</sup> The East Africa, 27 Sep 2021

<sup>9</sup> Central Bank of Kenya, 28 Sep 2021

<sup>10</sup> Central Bank of Kenya, 15 Sep 2021

<sup>11</sup> Central Bank of Kenya, 15 Sep 2021

<sup>12</sup> The East African, 12 Oct 2021

kilometre area that both countries claims to be within their territory. The area is considered highly prospective for oil and gas.

The dispute dates back to 2012 when the Kenyan government awarded exploration contracts in the area to **France**-headquartered oil major **Total** and **Italy**-based **ENI**.<sup>13</sup> Somalia lodged its claim of dispute to the ICJ, the highest court of the **United Nations (UN)**, in 2014. The ICJ rejected Kenya's claim that there was an existing and agreed upon maritime border, and in its ruling divided the area in two, part of which will be held by Kenya and the other by Somalia. The court noted:

*"The maritime boundary between the parties having been determined, the Court expects that each party will fully respect the sovereignty, sovereign rights and jurisdiction of the other in accordance with international law."*<sup>14</sup>

Kenya has previously indicated that it would not accept the ruling of the ICJ, noting that the court has no mechanism to enforce decisions. The ministry of foreign affairs on 12 October publicly disputed the court's decision:

*"The delivery of the judgment will be the culmination of a flawed judicial process that Kenya has had reservations with, and withdrawn from, on account not just of its obvious and inherent bias but also of its unsuitability to resolve the dispute at hand."*<sup>15</sup>

Relations between the two countries have been strained over the past months. Tension reached a new peak when Kenya closed its border to Somalia in May as part of its fight against the Covid-19 pandemic.<sup>16</sup> Somali leaders have also accused the Kenyan government of interfering in the politics of **Somaliland**, a semi-autonomous region in Somalia, with Somalia's information minister **Osman Dubbe** saying:

*"Kenya continues meddling in our internal political affairs and it has ignored our previous calls to stop violating our sovereignty,"*<sup>17</sup>

Tension between the two countries is likely to remain high for the foreseeable future, particularly if Kenya chooses not to recognise the ruling, and could escalate if either party commissions additional exploration in the waters.

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<sup>13</sup> The East African, 12 Oct 2021

<sup>14</sup> The East African, 12 Oct 2021

<sup>15</sup> The East African, 12 Oct 2021

<sup>16</sup> The Nation, 6 May 2021

<sup>17</sup> Al Jazeera 15 Dec 2020

## Planner

20 Oct 2021 **(Kenya)** Mashujaa day (national holiday)  
 Nov 2021 **Nairobi (Kenya)** Central Bank of Kenya Monetary Policy Committee meets  
 2022 **(Kenya)** General elections

## Chronology

13 Oct 2021 **Nairobi (Kenya)** *Nation*. The **White House** confirms that **United States** president **Joseph Biden** will host President **Uhuru Kenyatta** to discuss the two countries' bilateral ties;

12 Oct 2021 **Nairobi (Kenya)** *Business Daily*. Maize prices fall by 26% at the commencement of the harvesting period in **Kenya**;

12 Oct 2021 **Nairobi (Kenya)** *The East African*. The **International Court of Justice** rules in favour of **Somalia** in a protracted dispute regarding its maritime border with **Kenya**;

12 Oct 2021 **Nairobi (Kenya)** *The East African*. **Kenyan** cement makers are grappling with a shortfall of clinker in the market;

12 Oct 2021 **Nairobi (Kenya)** *Business Daily*. **Dubai**-based investment firm **Investera** enters into an agreement with **Kenya's Youth Enterprise Development Fund (YEF)** to seek opportunities to fund youth-led projects;

7 Oct 2021 **Nairobi (Kenya)** *The East African*. An inter-ministerial team will investigate **Kenya Power's** pricing policies;

7 Oct 2021 **Nairobi (Kenya)** *Business Daily*. The **African Development Bank (AfDB)** blacklists **Kenyan** IT firm **Express Automation Limited** following allegations of fraud;

4 Oct 2021 **Nairobi (Kenya)** *The East African*. President **Uhuru Kenyatta** is named as part of the **International Consortium of Investigative Journalists Pandora Papers**, with evidence that he and his family have significant undeclared funds offshore;

2 Oct 2021 **Nairobi (Kenya)** *Nation*. Confirmed cases of **Covid-19** surpass 250,000 with fatalities over 5,000;

1 Oct 2021 **Nairobi (Kenya)** *Business Daily*. Partially state-owned **Kenya Airways** has added additional flights to the **United Kingdom (UK)** after **Kenya** is removed from the UK "red list";

29 Sep 2021 **Nairobi (Kenya)** *The East African*. President **Uhuru Kenyatta** announces a minor cabinet reshuffle;

28 Sep 2021 **Nairobi (Kenya)** *The East African*. Partially state-owned **Kenya Airways** and **South African Airways** sign a memorandum of cooperation as they seek to develop a pan-**African** airline;

27 Sep 2021 **Nairobi (Kenya)** *The East African*. Over half the firms listed on the **Nairobi Stock Exchange** have failed to return to their pre-**Covid** prices;

23 Sep 2021 **Nairobi (Kenya)** *Business Daily*. The ministry of health has assured **Kenyans** that elections will go ahead in 2022 despite the pandemic;

22 Sep 2021 **Nairobi (Kenya)** *Business Daily*. **Kenya Power** has withdrawn a request to increase tariffs by 20%;

17 Sep 2021 **Nairobi (Kenya)** *The East African*. The **United Kingdom (UK)** removes **Kenya** from its travel red list;

17 Sep 2021 **Nairobi (Kenya)** *Business Daily*. **United Kingdom**-headquartered **Tullow Oil** estimates that 80% of **Kenya's** oil cannot be exploited due the impact of technological limitations on commercial exploitation;

16 Sep 2021 **Nairobi (Kenya)** *Nation*. Former sports cabinet secretary **Hassan Wario** is released from jail after paying a KSh 3.6m fine (\$32,400) relating to a bribery scandal associated with the **Rio de Janeiro** Olympics.

### About Africa Risk Consulting:

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