

## AFRICA RISK CONSULTING

### Kenya Monthly Briefing January 2018

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#### Kenya Summary 9 January 2018

*President Uhuru Kenyatta (2013-present) begins to name his cabinet, retaining key economic cabinet secretaries: Henry Rotich (treasury), Charles Keter (energy) and James Macharia (transport). The cabinet will implement Kenyatta's 'Big Four' development agenda. Kenyatta is considering reform of the public sector during his second term as he looks to control government spending and reduce the public sector wage bill. The World Bank and the Kenya National Bureau of Statistics (KNBS) publish separate growth data. Both blame the prolonged election period and the interest rate cap for lower-than-expected growth.*

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#### Kenyatta begins to name cabinet as second term takes shape

President **Uhuru Kenyatta** (2013-present) started to name his new cabinet on 5 January.<sup>1</sup> The ruling **Jubilee Party's** majority in the **National Assembly** and the **Senate** means Kenyatta should easily secure approval for his nominees. Kenyatta announced the names of all those cabinet secretaries that he had retained, but only announced a few of his new nominees. The retained cabinet secretaries include the key economic posts:

- **Henry Rotich** (treasury);
- **Charles Keter** (energy);
- **James Macharia** (transport);
- **Joe Mucheru** (information and communication technology);
- **Najib Balala** (tourism).<sup>2</sup>

Kenyatta also retained the politically influential interior cabinet secretary, **Fred Matiang'i**.<sup>3</sup> It also appears that Kenyatta retained the attorney general, **Githu Muigai**, though this is unconfirmed. Within the presidency, Kenyatta retained the head of the public service, **Joseph Kinyua**.<sup>4</sup>

Cabinet secretaries who lost their positions include foreign cabinet secretary **Amina Mohamed**, devolution cabinet secretary **Mwangi Kiunjuri**, defence cabinet secretary **Raychelle Omamo**, industrialisation cabinet secretary **Adan Mohamed**, and agriculture cabinet secretary **Willy Bett**.<sup>5</sup> Kenyatta did not name replacements for the dismissed cabinet secretaries. Kenyatta's nominees for unspecified cabinet positions include the former director of public prosecution, **Keriako Tobiko**, former **Marsabit County** governor **Ukur Yattani**, and former Jubilee Party **Turkana County** governorship candidate, **John Munyes**.<sup>6</sup> Kenyatta reportedly hopes the nomination of Tobiko will shore up his support within Tobiko's Maasai community, and Yattani and Munyes within their respective counties.<sup>7</sup>

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<sup>1</sup> Daily Nation, 5 Jan 2018.

<sup>2</sup> Daily Nation, 5 Jan 2018.

<sup>3</sup> Daily Nation, 5 Jan 2018.

<sup>4</sup> Daily Nation, 5 Jan 2018.

<sup>5</sup> Daily Nation, 5 Jan 2018.

<sup>6</sup> Daily Nation, 5 Jan 2018.

<sup>7</sup> Daily Nation, 5 Jan 2018.

In the security sector, Kenyatta dismissed head of the **Directorate of Criminal Investigations, Ndegwa Muhoro**, and promoted **Edward Njoroge Mbugua** to acting deputy inspector general of the **Kenya Police**.<sup>8</sup>

Deputy president **William Ruto**, Kenyatta's "*heir apparent*"<sup>9</sup> in the August 2022 presidential election, did not attend the ceremony in which Kenyatta announced his initial nominations.<sup>10</sup> This has led to speculation that Kenyatta and Ruto have fallen out over the choice of cabinet secretaries.<sup>11</sup> Kenyatta is expected to name the remainder of his cabinet secretaries over the next few weeks.<sup>12</sup> The identity of the remaining nominees remains unclear.

*"It is still not clear whether President Kenyatta will stuff his cabinet with career civil servants or private sector appointees."*<sup>13</sup>

Kenyatta set out his 'Big Four' development agenda on 13 December.<sup>14</sup> The ruling Jubilee Party's parliamentary majority means Kenyatta is relatively well placed to deliver his policy agenda during his second term. Kenyatta's 'Big Four' development priorities are food security, affordable housing, manufacturing and affordable healthcare.<sup>15</sup> With regard to food security, the government will look to free more land, including through the sale of state-owned land, for agricultural purposes.<sup>16</sup> In the housing sector, Kenyatta is targeting an additional 500,000 new home-owners by the end of his second term.<sup>17</sup> The government will do this through lowering the cost of mortgages and the cost of construction through innovative building techniques, and public and private investment for large-scale housing projects.<sup>18</sup> In the manufacturing sector, the government will prioritise the blue economy, especially fishing, agro-processing, and leather and textiles.<sup>19</sup> In the healthcare sector, Kenyatta wants to expand **National Hospital Insurance Fund (NHIF)** coverage, and revise private insurance regulations to lower costs.<sup>20</sup> Kenyatta said his government will use information technology, transport, education, and improved access to electricity as a platform to deliver the 'Big Four' gains.<sup>21</sup> Kenyatta called on the Jubilee Party's parliamentary leadership, national assembly majority leader **Aden Duale**, and senate majority leader **Kipchumba Murkomen**, to expedite the necessary legislation to realise his 'Big Four' agenda.<sup>22</sup>

The cabinet's policy agenda is likely to enjoy an easy ride through the legislative process during Kenyatta's second presidential term. The ruling Jubilee Party dominated elections for National Assembly committee chairs on 20 December.<sup>23</sup> Jubilee Party **Kiambaa Constituency** member of parliament (MP) **Paul Koinange** was elected chair of the influential national security and administration committee.<sup>24</sup> **Kitui South Constituency** MP **Rachael Nyamai** was elected lands committee chair.<sup>25</sup> **Marakwet West** MP **William Kisang** was elected communication, information

<sup>8</sup> Daily Nation, 5 Jan 2018.

<sup>9</sup> Source, journalist, Nairobi

<sup>10</sup> Daily Nation, 5 Jan 2018.

<sup>11</sup> Daily Nation, 5 Jan 2018.

<sup>12</sup> Daily Nation, 5 Jan 2018.

<sup>13</sup> Source, journalist, Nairobi

<sup>14</sup> Kenya presidency, 13 Dec 2017.

<sup>15</sup> Kenya presidency, 13 Dec 2017.

<sup>16</sup> Kenya presidency, 13 Dec 2017.

<sup>17</sup> Kenya presidency, 13 Dec 2017.

<sup>18</sup> Kenya presidency, 13 Dec 2017.

<sup>19</sup> Kenya presidency, 13 Dec 2017.

<sup>20</sup> Kenya presidency, 13 Dec 2017.

<sup>21</sup> Kenya presidency, 13 Dec 2017.

<sup>22</sup> Kenya presidency, 13 Dec 2017.

<sup>23</sup> Daily Nation, 20 Dec 2017.

<sup>24</sup> Daily Nation, 20 Dec 2017.

<sup>25</sup> Daily Nation, 20 Dec 2017.

and innovation committee chair.<sup>26</sup> **Moiben Constituency MP Silas Tiren** was elected agriculture committee chair.<sup>27</sup>

The opposition, however, heads the national assembly watchdog committees, as it is constitutionally entitled to. **Mvita Constituency Orange Democratic Movement (ODM) MP Abdulswamad Nassir** was elected chair of the public investments committee.<sup>28</sup> Defeated presidential candidate **Raila Odinga** heads both the opposition ODM and the **National Super Alliance (NASA)** of which the ODM is a member. Nassir is notable as he is close to the family of **Mombasa County** governor **Ali Hassan Joho** whose family have interests in **Mombasa Port**.<sup>29</sup> Nassir required a second round to secure the votes necessary to defeat **Butere Constituency MP Tindi Mwale** of **Amani National Congress (ANC)** and **Wajir East Constituency MP Rashid Kassim** of **Wiper**.<sup>30</sup> The ODM, ANC and Wiper are all members of the NASA coalition. The contested election for the chair of the public investments committee is indicative of increased manoeuvring for power within NASA following the election.<sup>31</sup> ODM MPs **Opiyo Wandayi (Ugunja Constituency)** and **Moitalel ole Kenta (Narok North Constituency)** respectively became chairs of the public accounts and implementation committees.<sup>32</sup> The ANC will hold a parliamentary group meeting in January when it will decide whether the ODM's dominance of the watchdog committees violates the NASA coalition agreement, and, if so, whether it might seek legal recourse.<sup>33</sup> The Jubilee Party is reportedly encouraging these divisions in NASA as it aims to isolate Odinga and increase defections.<sup>34</sup>

Odinga meanwhile had threatened to hold his planned unofficial presidential swearing in-ceremony before the end of January.<sup>35</sup> If Odinga goes ahead with the planned inauguration in front of a so-called **People's Assembly**, he could face treason charges, which would significantly exacerbate political tensions.<sup>36</sup> Odinga said he would hold his swearing in-ceremony *"very early in the New Year"*.<sup>37</sup> Odinga had previously indefinitely postponed the swearing in-ceremony originally scheduled for 12 December, which would have coincided with Jamhuri Day, which marks Kenya's independence from the **United Kingdom (UK)**. Odinga, however, said that the postponement had not led to meaningful dialogue with Kenyatta.<sup>38</sup> In his statement, Odinga criticised the intransigence of the Kenyatta administration and said the opposition must *"choose between resigning ourselves to dictatorship, to accept and move on, or to stand up for what we believe in."*<sup>39</sup> Odinga warned that NASA will *"invoke [its] inalienable human right to self-determination if [it] must."*<sup>40</sup> This may be a reference to the campaign for secessionism which has escalated since the election in the opposition-dominated western and coastal regions.

*"We end 2017 a deeply divided people. We are divided between those who have rallied behind the leadership that wants to take us back to the dictatorship and those who believe that democracy and rule of law portend a brighter future for us all."*<sup>41</sup>

<sup>26</sup> Daily Nation, 20 Dec 2017.

<sup>27</sup> Daily Nation, 20 Dec 2017.

<sup>28</sup> Daily Nation, 23 Dec 2017.

<sup>29</sup> Daily Nation, 23 Dec 2017.

<sup>30</sup> Daily Nation, 23 Dec 2017.

<sup>31</sup> Daily Nation, 23 Dec 2017.

<sup>32</sup> Daily Nation, 23 Dec 2017.

<sup>33</sup> Daily Nation, 23 Dec 2017.

<sup>34</sup> Nairobi News, 28 Dec 2017.

<sup>35</sup> Daily Nation, 24 Dec 2017.

<sup>36</sup> Source, journalist, Nairobi

<sup>37</sup> Daily Nation, 24 Dec 2017.

<sup>38</sup> Daily Nation, 24 Dec 2017.

<sup>39</sup> Daily Nation, 24 Dec 2017.

<sup>40</sup> Daily Nation, 24 Dec 2017.

<sup>41</sup> Daily Nation, 24 Dec 2017.

Investors will welcome the retention of the technocratic and competent Rotich. The reported dispute with Ruto is a signal that Kenyatta's eventual succession is already a source of political risk. Power struggles within the Jubilee Party will increase as manoeuvring to succeed Kenyatta increases.

### Government considers public sector reforms

Kenyatta is considering reform of the public sector during his second term as he looks to control government spending and reduce the public sector wage bill.<sup>42</sup>

*"Kenyatta has stated that there is an urgent need to reform the public service in order to ensure that taxpayers get value for money, [and] alluded to massive layoffs in the public service to reduce the ballooning wage bill."*<sup>43</sup>

Kenya's 700,000-strong public service is projected to cost \$6.29 billion, close to 39% of all government revenue, in salaries and allowances in the 2017-2018 fiscal year.<sup>44</sup> The public wage bill's share of revenues may go higher since the prolonged electioneering period, a severe drought and a slowdown in business activity due to the interest rate cap may result in lower government revenues (see below).

There is uncertainty about how Kenyatta will attempt this politically sensitive reform public sector.

*"It is not yet clear how soon the Jubilee administration will begin the process, the number of workers to be affected or what cadre of civil servants will be affected but going from past attempts, the first casualties will be workers in Kenya's state-owned enterprises."*<sup>45</sup>

In 2013 Kenyatta formed a commission that was tasked with looking at how to revamp state-owned enterprises; some of the proposed recommendations include merging state corporations whose mandates overlap or whose activities are duplicated by other state-owned enterprises.<sup>46</sup> For example, there was a proposal to merge all regulators in the banking, insurance, pensions and capital markets sectors into one **Financial Services Authority**.

*"At the moment companies in the financial services sector, especially those that have subsidiaries in diverse fields, have to report to multiple agencies which adds to the cost and time of running their activities."*<sup>47</sup>

Other proposals included the privatisation of struggling state-owned enterprises that no longer had a strategic role or whose initial purpose had been achieved. For instance, the government still has state-owned abattoirs and creameries. The initial intention of these was to create markets for post-colonial indigenous farmers but today there are successful indigenous private companies that are better run than their public competitors.<sup>48</sup> The 2013 taskforce recommended the privatisation of such state-owned enterprises, which would inevitably result in creating a much leaner workforce. These public-sector reforms were put on hold to avoid a political backlash in the 2017 general elections but there is less political capital at stake for Kenyatta during his constitutionally mandated final term in office. There is, however, a risk that unpopular reforms might impact his planned succession to Ruto (see above).

*"State-owned enterprises in Kenya are often used to reward party loyalists and stalwarts through board appointments. Appointments to state-owned enterprises give the recipients avenues to influence policy, tenders and appointments. Reducing the number of state-owned enterprises would result in fewer political goodies and in turn reduce political capital."*<sup>49</sup>

<sup>42</sup> Source, business journalist, Nairobi

<sup>43</sup> Source, business journalist, Nairobi

<sup>44</sup> Source, business journalist, Nairobi

<sup>45</sup> Source, business journalist, Nairobi

<sup>46</sup> Source, business journalist, Nairobi

<sup>47</sup> Source, business journalist, Nairobi

<sup>48</sup> Source, business journalist, Nairobi

<sup>49</sup> Source, business journalist, Nairobi

Observers have warned that public sector reform would probably have a negative short-term economic impact.

*“Should Kenyatta go ahead with his intentions of trimming the public sector there will be an immediate effect that will reverberate across the entire economy. Civil servants are the most preferred consumer loan borrowers due to their job security, perks and prompt salary payments. Banks and savings and credit co-operatives would take a hit in their books should there be massive layoffs in the civil service.”<sup>50</sup>*

While public sector reform would have a negative short-term impact, in the longer term it would allow the government to channel the savings into development expenditure and capital investment.

### **World Bank and KNBS data show negative impact of election & interest rate cap**

The **World Bank** cut its 2017 growth estimate for Kenya from 5.5% to 4.9% on 7 December.<sup>51</sup> The World Bank cited the prolonged drought, poor credit growth, and the longer than expected election period.<sup>52</sup> The World Bank noted that the drought had increased inflation and decreased consumer demand.<sup>53</sup> The World Bank noted that private sector credit growth decreased to 1.6% in August, the lowest level in over a decade.<sup>54</sup> The World Bank called on the government to lift the commercial interest rate cap.<sup>55</sup> According to the World Bank, political uncertainties around the election meant that private sector activity weakened over the first three quarters of 2017.<sup>56</sup> The World Bank expects growth to recover to 5.5% in 2018 and 5.9% in 2019.<sup>57</sup> The World Bank called on the government to shore up its growth prospects by reducing the budget deficit through improved revenue collection and decreased recurrent expenditure.<sup>58</sup>

The **Kenya National Bureau of Statistics (KNBS)** echoed the World Bank’s analysis when it published its own data on 29 December showing third quarter growth of 4.4% compared to 5% in the preceding quarter and 5.6% in the corresponding quarter last year.<sup>59</sup> The KNBS included the cap on commercial interest rates and uncertainty around the extended election period as reasons for the decrease in growth.<sup>60</sup> According to the KNBS, the financial sector grew 2.4% year-on-year in the third quarter, compared to 4.3% in the second quarter, and 7.1% in the corresponding quarter last year.<sup>61</sup> The agriculture sector grew 3.1%, an improvement on 1.3% in the second quarter, but less than the 3.8% in the corresponding quarter last year.<sup>62</sup> Manufacturing output grew 2.1%, compared to 2.3% in the second quarter.<sup>63</sup> Construction grew 4.9%, compared to 7.5% in the second quarter.<sup>64</sup> The current account deficit increased to 145.4 billion Kenyan shillings (KSh) (\$1.41 billion) in the third quarter, compared to KSh 112.8 billion (\$1.09 billion) in the corresponding quarter last year.<sup>65</sup>

Growth will remain positive during the second Kenyatta presidency. Driving factors include urbanisation, the growth of the middle class and the related increase in disposable incomes, investment in infrastructure, pro-market reforms and regional integration. It is, however, likely that this level of growth will be insufficient for the government to deliver all its plans. Fiscal consolidation

<sup>50</sup> Source, business journalist, Nairobi

<sup>51</sup> Reuters, 7 Dec 2017.

<sup>52</sup> Reuters, 7 Dec 2017.

<sup>53</sup> Reuters, 7 Dec 2017.

<sup>54</sup> Reuters, 7 Dec 2017.

<sup>55</sup> Reuters, 7 Dec 2017.

<sup>56</sup> Reuters, 7 Dec 2017.

<sup>57</sup> Reuters, 7 Dec 2017.

<sup>58</sup> Reuters, 7 Dec 2017.

<sup>59</sup> Bloomberg, 29 Dec 2017.

<sup>60</sup> Bloomberg, 29 Dec 2017.

<sup>61</sup> Bloomberg, 29 Dec 2017.

<sup>62</sup> Bloomberg, 29 Dec 2017.

<sup>63</sup> Bloomberg, 29 Dec 2017.

<sup>64</sup> Bloomberg, 29 Dec 2017.

<sup>65</sup> Reuters, 29 Dec 2017.

will help to keep public debt at a manageable level, but upwards pressure will continue on the back of massive debt-financed infrastructure projects.

### Planner

2018 **(Kenya)** *Capital FM*. Construction of **Nairobi-Mombasa** express highway due to begin;  
 14 – 16 March 2018 **Nairobi (Kenya)** *Press release*. **East Africa Oil & Gas Summit 2018**;  
 Jun 2018 **(Kenya)** *Daily Nation*. Direct flights with **United States** expected to begin;  
 Jan 2018 **(Kenya)** *Daily Nation*. **National Super Alliance (NASA)** leader and defeated presidential candidate, **Raila Odinga**, to hold unofficial swearing-in ceremony;

### Chronology

5 Jan 2018 **Nairobi (Kenya)** *Daily Nation*. President **Uhuru Kenyatta** begins to name new cabinet, retaining the treasury cabinet secretary, **Henry Rotich**;

3 Jan 2018 **Nairobi (Kenya)** *Business Daily Africa*. The **Communications Authority of Kenya (CAK)** abandons plans to unbundle **Safaricom Ltd** into separate business units over concerns about its market dominance;

3 Jan 2018 **Nairobi (Kenya)** *Africa Business Community*. The **Central Bank of Kenya (CBK)** drafts new **Guidance Note on Conducting Money Laundering/ Terrorism Financing Risk Assessment**;

1 Jan 2018 **Nairobi (Kenya)** *The Star*. The **Kenya National Bureau of Statistics (KNBS)** says growth was 4.4% in fourth quarter 2017, the lowest level for five years;

29 Dec 2017 **Nairobi (Kenya)** *Reuters*. The KNBS says year-on-year inflation decreased from 4.73% in November to 4.5% in December, the lowest level for five years;

20 Dec 2017 **Nairobi (Kenya)** *Daily Nation*. Religious and civil leaders say national dialogue initiative to end political polarisation will begin in February and last six months;

17 Dec 2017 **Kajiado (Kenya)** *The Citizen*. Kenyatta says second stage of standard gauge railway will be completed by June 2019;

12 Dec 2017 **Lamu (Kenya)** *The Standard*. Police warn that Islamist militant group **Jaysh Ayman**, which has links to **al Shabaab**, may be planning attacks over Christmas;

11 Dec 2017 **Nairobi (Kenya)** *The Standard*. The **Supreme Court** publishes detailed ruling about why it upheld Kenyatta's victory in 26 October presidential election rerun;

10 Dec 2017 **Nairobi (Kenya)** *Capital FM*. **Raila Odinga** indefinitely postpones unofficial swearing-in ceremony scheduled for 12 December;

7 Dec 2017 **Nairobi (Kenya)** *Reuters*. The attorney general, **Githu Muigai**, says Odinga's unofficial swearing-in ceremony would be an act of treason;

7 Dec 2017 **Nairobi (Kenya)** *The Star*. The **World Bank** cuts 2017 growth estimate from 5.5% to 4.9%;

6 Dec 2017 **Nairobi (Kenya)** *The Star*. Kenyatta approves the **County Allocation of Revenue Amendment Bill**;

5 Dec 2017 **Nairobi (Kenya)** *Daily Nation*. **United States (US)** acting assistant secretary of state for **African** affairs, **Donald Yamamoto**, calls for dialogue to end political impasse;

4 Dec 2017 **Diani (Kenya)** *The Star*. Security forces detain NASA chief strategist, **David Ndi**, on charges of inciting violence;

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