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The government announces a plan to create the Kenya Development Bank (KDB) from three state-owned financial institutions to fund its infrastructure projects. The World Bank publishes its biannual report showing a positive 5.8% national annual growth for 2018 but warns of upcoming "bullet payments" for Eurobonds and syndicated loan repayments. Tanzania announces its plan to open a tea auction in Dar es Salaam to rival Kenya's Mombasa auction.

Government to create Kenya Development Bank to fund infrastructure projects

Three state-owned financial institutions, the **Industrial and Commercial Development Corporation (ICDC)**, **IDB Capital** and the **Tourism Finance Corporation (TFC)**, are to merge and form the **Kenya Development Bank (KDB)**.¹ The three institutions combined will have a "huge balance sheet".² Hoping to employ a financial model similar to the **African Development Bank (AfDB)**, the **Kenyan** government plans to use the large balance sheet of the KDB to gain long-term foreign funding for its **Vision 2030** agenda.³ The KDB will thus seek to boost Kenya's manufacturing sector as well as ensure universal healthcare, food security and affordable housing for Kenyans.⁴

However, the **World Bank** has warned the Kenyan government that public resources alone will not service the country's infrastructure needs, which are currently around \$4 billion per year.⁵ Public finances are already stretched, as the **National Assembly** approved ad hoc cuts of \$372.6m to the government's 2018/2019 budget on 20 September in the face of a \$4.96 billion budget deficit (see *ARC Briefing Kenya September 2018*).⁶ Further cause for concern is Kenya's level of public debt, standing at 57% of GDP,⁷ at around \$50 billion.⁸ The World Bank recommended that the government draw on the Kenya shilling and the country's private sector to bolster financing for its ambitious infrastructure projects, having already provided Kenya with \$90m to foster public-private cooperation as of April 2018.⁹

One such example of public-private cooperation is the **Nairobi Gate** industrial park, a planned 42 hectares of plants and warehouses to serve Kenya's light industry sector.¹⁰ **South African** logistics company **Improvon** and **United Kingdom**-based private equity firm **Actis** will construct the park, which should be complete after five to seven years, with the first phase complete by the second quarter of 2019.¹¹ Supporting the viability of the project, Actis director **Michael Turner** stated that

¹ The East African, 12 Oct 2018.

² The East African, 12 Oct 2018.

³ The East African, 12 Oct 2018.

⁴ The East African, 12 Oct 2018.

⁵ The East African, 12 Oct 2018.

⁶ The Standard, 21 Sept 2018.

⁷ The Star, 4 Sept 2018.

⁸ Ecofin Agency, 17 Oct 2018.

⁹ The World Bank, 27 Apr 2018.

¹⁰ Ecofin Agency, 8 Oct 2018.

¹¹ Ecofin Agency, 8 Oct 2018.

“East Africa is experiencing strong consumer demand and infrastructure development.”¹²

The World Bank recently reported that growth of Kenya’s manufacturing sector slowed in 2017 but is set to grow by 2.8% in 2018, a tentative recovery.¹³ This, coupled with the government’s focus of the manufacturing sector and infrastructure in its development plans,¹⁴ shows investors that these areas are probable growth areas in the Kenyan economy.

World Bank reports 5.8% national annual growth for 2018

The World Bank’s biannual report on Kenya, published on 11 October, predicts 5.8% national economic growth in 2019, a figure that could rise to 6% for 2020.¹⁵ One driver of this economic growth is good harvests and the resultant fall in food prices.¹⁶ Moreover, the spectre of insecurity and political upheaval, which loomed large during the prolonged election period in 2017, has lifted, engendering a better business operating environment (see *ARC Briefing Kenya September 2018*).¹⁷ Finally, improvements in the road network and the opening of the standard gauge railway (SGR) between the capital, **Nairobi**, and the biggest port in the country, **Mombasa**, have made trade easier.¹⁸

The World Bank also reported several inhibitors for economic growth in Kenya. Firstly, government restrictions on the **Central Bank of Kenya’s (CBK)** ability to adjust interest rates indicate that the availability of credit for businesses, particularly for small and medium-sized enterprises (SMEs), is unlikely to grow.¹⁹ This will stifle economic growth.²⁰ The World Bank also criticised the Kenyan government’s revenue collection efforts, noting a fall in the ratio of tax relative to the country’s GDP in recent years.²¹ Furthermore, the report showed scepticism towards the Kenyan government’s ability to increase tax revenues without “*significant structural reforms*”.²² Associate director for tax and regulatory services at **Netherlands-based** accountancy firm **KPMG, Robert Waruiru**, warned that the government must strike a balance between broadening the tax base to increase revenue and simply taxing the poor.²³ Testament to Waruiru’s thesis was the recent imposition of an unpopular 16% value added tax on petroleum products, which led to a strike and “*a country-wide fuel crisis*”. The government subsequently reduced the tax rate (see *ARC Briefing Kenya September 2018*).²⁴

Kenya’s budget deficit and national debt are also areas of economic concern. Last month, the National Assembly approved \$372.6m of cuts to the 2018-2019 government budget to mitigate the \$4.96 billion budget deficit and national debt that stands at 57% of GDP (see *ARC Briefing Kenya September 2018*).²⁵ The World Bank noted that Kenya’s economic vulnerability could worsen as the country soon faces bullet payments for Eurobonds it has issued and syndicated loan repayments.²⁶

The World Bank’s prediction that Kenya’s economic growth will quicken is good news for investors. However, Kenya’s problems with its deficit and debt, coupled with limited access to credit, could work to scupper the country’s economic prosperity.

¹² Soko Directory, 25 Sept 2018.

¹³ Daily Nation, 17 Oct 2018.

¹⁴ The East African, 12 Oct 2018.

¹⁵ Daily Nation, 17 Oct 2018 and The Standard, 15 Oct 2018.

¹⁶ Daily Nation, 17 Oct 2018.

¹⁷ The Standard, 10 Oct 2017.

¹⁸ Daily Nation, 17 Oct 2018.

¹⁹ Daily Nation, 17 Oct 2018.

²⁰ Daily Nation, 17 Oct 2018.

²¹ Business Daily, 14 Oct 2018.

²² The Standard, 15 Oct 2018.

²³ Business Daily, 14 Oct 2018.

²⁴ The Standard, 10 Sept 2018.

²⁵ The Standard, 21 Sept 2018.

²⁶ Daily Nation, 17 Oct 2018.

Dar es Salaam plans tea auction to rival Mombasa auction

Tanzania Tea Board chair **Steven Mlote** announced plans for **Tanzania** to start its own tea auction in **Dar es Salaam**, rivalling the Mombasa tea auction where Tanzania growers currently sell much of their tea.²⁷ Mlote said that the reason behind a domestic tea auction is to cut transport costs and increase farmers' earnings, as well as to boost cargo through Dar es Salaam port.²⁸

The Mombasa tea auction is the second largest of its kind in the world behind **Colombo (Sri Lanka)** and boasts 70 regular buyers.²⁹ This competition between buyers makes it an attractive place for sellers. Echoing this sentiment, **East African Tea Traders Association (EATTA)** managing director **Edward Mudimbo** says that "*quantity makes a tea auction sustainable*".³⁰ The Mombasa tea auction, which sells tea produced in Kenya, **Madagascar, Ethiopia, Mozambique, Burundi, Tanzania, Rwanda** and **Uganda**, boasts a sufficiently high quantity of tea to attract buyers to the auction, whereas an auction in Dar es Salaam would not.³¹

The **Uganda Exports Promotion Board** announced in March that Uganda would market tea directly to suppliers to secure better prices for its own tea growers.³² However, Uganda has since rescinded the decision.³³ **Uganda Tea Association** executive secretary **George Sekitoleko** said that Uganda's poor quality and low quantity of tea inhibits the country from starting a tea auction.³⁴

Tea exports are an important source of income to the Kenyan economy. In January 2018, total tea production stood at 40,834,416 kilograms (kg) and 39.1 million kg of tea was sold at the Mombasa auction.³⁵ In 2017, tea was the crop with the largest contribution to Kenya's gross domestic product (GDP), and in 2016 the tea industry accounted for 25% of Kenya's export earnings and 40% of the country's agricultural output, around 13% of GDP.³⁶

Tanzania's plan to start its own auction is one of many examples of the economic rivalry between Tanzania and Kenya. Earlier this year, rangers in the **Serengeti National Park** (Tanzania) were accused of setting fires to block the path of animals migrating towards Kenya to keep tourists (and their money) in Tanzania.³⁷ In the recent past the two countries have also imposed tariffs on imports from either country.³⁸ This rivalry comes at an economic cost to both countries, as between January and October 2017, trade between Kenya and Tanzania stood at a ten-year low due to trade spats (see *ARC Briefing Kenya July 2018*).³⁹

The omission of Tanzanian tea will not cause significant economic harm to the Mombasa tea auction. The auction would only lose a maximum of 12,000 tonnes of tea annually,⁴⁰ with other estimates as low as 5,000 tonnes.⁴¹ However, this development shows investors to consider Kenya-Tanzania relations if conducting business between the two countries. Regardless, the chances of politicians in the region playing politics with the private sector are more likely with President **John Magufuli** (2015-present) of Tanzania, who espouses economic nationalism, often in an erratic way that can be

²⁷ The East African 15 Oct 2018.

²⁸ The East African 15 Oct 2018.

²⁹ The East African 15 Oct 2018.

³⁰ The East African 15 Oct 2018.

³¹ The East African 15 Oct 2018.

³² The East African 15 Oct 2018.

³³ The East African 15 Oct 2018.

³⁴ The East African 15 Oct 2018.

³⁵ Official data, Tea Directorate, Agriculture and Food Authority of Kenya.

³⁶ The African Capacity Building Foundation, 28 June 2017.

³⁷ BBC, 20 July 2018.

³⁸ Business Daily, 26 Sept 2018.

³⁹ The East African, 2 Jan 2018.

⁴⁰ The East African 15 Oct 2018.

⁴¹ The East African, 15 Oct 2018.

to the detriment of the general trade and economic health of Tanzania, and potentially its neighbours.⁴²

Planner

28 Oct 2018 **(Kenya)** *Daily Nation*. Daily direct flights to **New York (United States)** expected to begin;

20 Nov 2018 **Nairobi (Kenya)** *10Times*. **Flower Logistics Africa** Conference;

21-22 Nov 2018 **Nairobi (Kenya)** *10Times*. **East Africa Rail** trade show;

6-8 Mar 2019 **Mombasa (Kenya)** *East African Community*. **East African Petroleum Conference and Exhibition**;

Aug 2019 **(Kenya)** *The Star*. National census planned;

2022 **(Kenya)** *Daily Nation*. General elections to be held;

Chronology

19 Oct 2018 **Western Kenya (Kenya)** *Reuters*. The **Petroleum and Mining Ministry** announces plans to set up a gold refinery to aid small-scale miners;

15 Oct 2018 **Nairobi (Kenya)** *Reuters*. Fire reported at **Jomo Kenyatta International Airport**;

11 Oct 2018 **(Kenya)** *The World Bank*. The World Bank publishes its bi-annual report on Kenya;

10 Oct 2018 **Mandera County (Kenya)** *Reuters*. Suspected **al-Shabaab** bomb attack kills two;

10 Oct 2018 **Fort Ternan (Kenya)** *CNN*. Bus crash kills at least 50;

26 Sep 2018 **Nairobi (Kenya)** *Capital News*. President **Uhuru Kenyatta** calls for two permanent seats for **Africa** on the UN Security Council;

⁴² African Arguments, 17 Jul 2018.