

AFRICA RISK CONSULTING

Kenya Monthly Briefing April 2019

Kenya Summary 29 April 2019

The Kenya National Bureau of Statistics (KNBS) publishes its annual economic survey, which again highlights Kenya as the region's economic powerhouse and most diversified economy. Economic growth for 2018 outstripped expectations with agriculture leading all sectors in improved output. While the figures are credible, very positive and reflect local economic conditions, some seasoned economic observers highlight areas for concern. Delayed rains, threat of drought and poor private sector investment threaten the 2019 outturn and may reverse 2018 gains. President Uhuru Kenyatta (2013-present) promises business conditions in 2019 will improve dramatically and commits to improved infrastructure. China moves into centre stage in infrastructure financing terms and as a primary importer of Kenyan avocados. Kenyatta's decision to include opposition leader Raila Odinga in a state visit to China has intensified divisions in the Jubilee Party, currently only manifest in hostile speech but raising the risk of a return of political violence in the run up to 2022 – which in turn risks undermining all economic progress to date.

Kenya's economy booms in 2018 ...

The Kenya National Bureau of Statistics (KNBS) published its annual economic survey on 25 April, highlighting Kenya once more as the region's economic powerhouse and most diversified economy.¹ Nearly all sectors posted an increase in output and so economy posted a sharp increase in growth of 6.3% in 2018 up from 4.9% in 2017.² This exceeds the **World Bank's** predicted 5.8% growth for the year, which the bank attributed to "recovery in agriculture, better business sentiment, and easing of political uncertainty".³

Main contributors to GDP 2018	
Accommodation & food	16.6%
ICT	11.4%
Transport & storage	8.8%
Agriculture	6.4%
Wholesale & retail	5.3%
Manufacturing	4.2%

The KNBS highlights that favourable weather and good rains drove up agricultural production, which in turn acted as an accelerator to manufacturing, transport, distribution and services. Agriculture's real value-added growth accelerated to 6.6% in 2018. Several sectors show a substantial improvement, notably manufacturing, which recovered from a dismal performance in 2017. The KNBS also attributes to better rains the easing of inflation from 8% in 2017 to 4.7% in 2018 as food prices dropped.

Notable economic highlights include news that:

- 86% of electricity generated was from renewable sources in 2018 compared to 73.3% in 2017 and two renewables projects – the **Lake Turkana** wind power project and the **Garissa Solar** power plant – added 360MW to the total installed electricity capacity, increasing it from 2,339 MW to 2,711 MW;

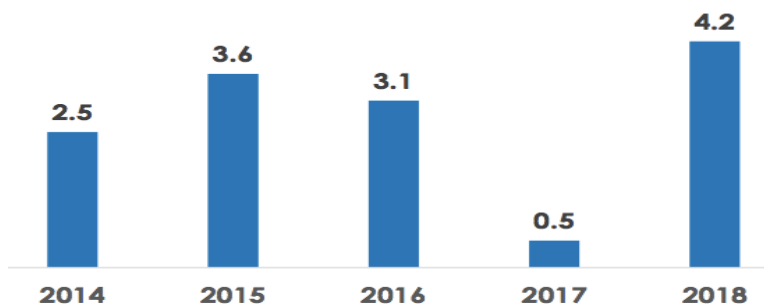
¹ Kenya National Bureau of Statistics, 25 Apr 2019.

² Kenya National Bureau of Statistics, 25 Apr 2019.

³ World Bank in Kenya, updated 28 Mar 2019.

- Tourism saw a 14% increase in arrivals during 2018, which resulted in an increase in earnings of 31% to KSh157.4 billion (\$1.55 billion) in 2018;
- Railway transport earnings increased significantly from KSh3 billion (\$30m) in 2017 to KSh9.8 billion (\$97m) in 2018.
- The economy created over 840,000 jobs, although mainly in the informal sector;
- An increase in total net financial inflows of around 21.6% to KSh664.6 billion (\$6.6 billion) in 2018 contributed to the narrowing of the current account balance from a deficit of KSh503.4 billion (\$5 billion) in 2017 to a deficit of KSh441.8 billion (\$4.4 billion) in 2018.⁴

Growth of Manufacturing Real Value Added (%)



... but all is not well in the private sector

While the figures are credible, very positive and reflect local economic conditions, some seasoned economic observers highlight areas for concern.

“While some of the numbers are positive, all is not as good as all that. There are a number of things that show that all is not well. The first indicator is the number of listed companies that are currently issuing profit warnings, not paying dividends, or their earnings have stagnated. Then look at the private sector – it is not investing in expansion or local economy. Most credit is going to the state. Look at the banks. There are six or seven at the very top that are profitable but the rest are zombie banks. Even those six or seven, in the last year the interest rate cap has meant that they are only making money through T-Bills (treasury bills) and the government is going to the market every other week.”⁵

The economic survey bears out this analysis: Overall credit to the private sector grew by 1.9% in 2018 compared to 4.1% in 2017 and this pales into insignificance when compared to credit to government. While credit to government debt slowed down from 27.5% in 2017 to 13.6% in 2018, it is expected to rise significantly in 2018/2019.

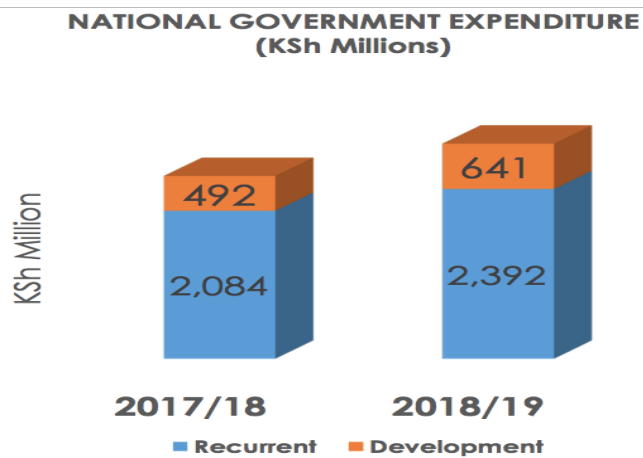
Moreover, treasury secretary **Henry Rotich** has come to see an “urgent need” to review a law that caps the interest rates that banks can charge, following a successful court challenge.⁶ The government imposed the cap at four percentage points above the central bank rate in August 2016 to fulfil an election-campaign pledge by President **Uhuru Kenyatta** (2013-present) to improve lending terms for consumers, against the advice of the central bank and the **National Treasury**. The limit has cut into

⁴ Kenya National Bureau of Statistics, 25 Apr 2019.

⁵ ARC Business source, 29 Apr 2019

⁶ ARC Business source, 29 Apr 2019

lenders' profit margins, forcing them to be more selective in who they provide money to, even sending consumers to borrow from unregulated micro-lenders at much higher rates.



The fiscal discipline set in 2017 is expected to wane as Kenya moves into its pre-election year in 2020. The survey forecasts overall national government expenditure to grow by 17.8% in 2018/19. The bulk of that growth is recurrent spending – i.e. spending on wages rather than investment expenditure – which is expected to account for 78.9% of national spending in 2018/19.

"It's not popular – but what we need is to go onto an [International Monetary Fund] IMF programme. We need prefects to take charge of the fiscal consolidation."

Others point to difficulties ahead. Last year's rains have not repeated this year, threatening to reverse the gains made in 2017/2018. Kenya's meteorology department on 25 April issued a warning that the long rains won't be enough to underpin the recovery of agricultural production.⁸ Unusually high temperatures across the country signal disaster ahead. Rivers are running dry, significantly reducing water for domestic consumption, irrigation and electricity generation.

The latest version of the World Bank report anticipates that growth in 2019 will slow to 5.7% mainly due to poor agricultural performance:

"Delayed start to the March-May 2019 long rainy season could affect the planting season resulting in poor harvests."

Further, the World Bank also points to a slow-down in private sector investment, profit warnings by companies, and slow credit growth to the agriculture sector.⁹

... though Uhuru Kenyatta leans on the economy in State of the Nation Address

President Uhuru Kenyatta nevertheless used the backdrop of a strong economy to deliver his **State of the Nation Address** on 4 April, predicated on repeating this economic success and replicating 6.3% growth. Kenyatta committed to dramatically improving the country's business environment as his administration pursued an objective to build a job-creating economy that improves services and which would deliver his policy agenda – the so-called **Big Four Agenda**. He also committed to further improving Kenya's ranking in the World Bank's **Ease of Doing Business Index**. In 2019, Kenya's ranking improved 19 places to position 61 globally. Kenyatta committed to being "among the top 50 by the year 2020".¹⁰

Kenyatta's Big Four Agenda, or the medium-term economic plan, is based on achieving an average growth rate of 6.6%, which has yet to be achieved. For the year ahead, Kenyatta announced:

- an increase in manufacturing output, notably doubling of **France**-based vehicle manufacturer **Peugeot** and **Germany**-based **Volkswagen's** assembly and spare parts manufacture to 1,500 vehicles;
- the roll-out to 43 counties of **Universal Health Coverage**;

⁷ ARC Business source, 29 Apr 2019

⁸ Daily Nation, 25 Apr 2019

⁹ World Bank Group Press release, 4 Apr 2019

¹⁰ Daily Nation, 4 Apr 2019

- a commitment to reduce food insecurity through farming incentives, reforms and intervention on water, sugar and coffee to increase production and lower prices, and to reduce payment delays to farmers with a KSh.3 billion (\$30m) **Cherry Advance Revolving Fund** with an interest rate of 3%;
- Kenya is on track to meet affordable housing commitments with the allocation of the first 175,000 houses.¹¹

Kenyatta named as Big Four “enablers” the adjacent developments in infrastructure, connectivity and technology during 2019, notably to:

- Complete the **Standard Gauge Railway (SGR)** line from **Nairobi** to **Naivasha** to replicate the **Nairobi-Mombasa Madaraka Express**, which has carried 2.5 million passengers since May 2018, and 3.8 million tons of cargo;
- Continue the nationwide road building and road improvement programme;
- Use new direct flights to **New York** to encourage **United States (US)** tourists to Kenya and open up the US to Kenyan exports;
- Create a framework to manage oil and other mineral revenues via a **Sovereign Wealth Fund**;
- Introduce as a one-stop shop for all population and national identity records in a **National Integrated Identity Management System (NIIMS)**.¹²

China visit dominates foreign policy agenda ...

Kenyatta’s State of the Nation pledge to complete the Naivasha-**Kisumu** section of the Standard Gauge Railway (SGR) was at the heart of a presidential delegation to **China**, where a high-level Kenya delegation comprising opposition leader **Raila Odinga**, cabinet secretaries **Peter Munya** (trade), **Monica Juma** (foreign affairs) and **James Macharia** (infrastructure) attended the second **Belt and Road Initiative (BRI)** forum in **Beijing**.

China has grown to become one of Kenya’s key development partners and is behind several key infrastructure projects, including the SGR and several arterial roads.¹³ Kenyatta publicly committed Kenya to the China-led BRI for **East** and **North Africa**, saying that Kenya shares a common vision with China – the development and transformation of the country and East Africa.

“[Kenya is] a gateway to the African segment of the Golden Belt of the BRI that stretches from the port of Mombasa to Kisumu, on Lake Victoria and the East African hinterland, to the port of Kinshasa [DRC].”¹⁴

A meeting between Presidents Kenyatta and **Xi Jinping** (2013-present) focused on eight initiatives identified during the **Forum on China-Africa Cooperation (FOCAC)** meeting held in Beijing last year. These initiatives include industrial promotion, trade, infrastructure, green development, capacity building, healthcare, peace and security and included the following:

- **Complete and maintain SGR:** A centrepiece of the visit was Kenya’s bid to secure a KSh368 billion (\$3.6 billion) loan to complete the SGR project, bringing the tally of the whole project to KSh845 (\$8.4 billion) or KSh800m (\$7.9m) per kilometre. The cost of every kilometre of railway between Mombasa and Kisumu is reportedly twice the international average. Phase one cost KSh327 billion (\$3.27 billion) before loan interest fees and land acquisition costs. About 90% of this amount, or KSh294 billion (\$2.9 billion), was a part-concessional, part-commercial loan from **Exim Bank of China**. Phase 2B, the Naivasha to Kisumu segment, is the

¹¹ Daily Nation, 4 Apr 2019

¹² Daily Nation, 4 Apr 2019

¹³ Daily Nation, 24 Apr 2019

¹⁴ Financial Services Monitor Worldwide, 27 Apr 2019

subject of the current loan negotiations and will include a new high-capacity port in Kisumu at a cost of KSh368 billion (\$3.68 billion). The final Phase 2C will take the line from Kisumu to **Malaba**. Cumulatively, stretching the line from Mombasa to Kisumu will cost a total of KSh845 billion (\$8.45 billion) for the 996-kilometre line, making it the biggest infrastructure project Kenya has ever undertaken. Together with interest and land acquisition, the line will cost over KSh1 trillion (\$9.9 billion).

- **Public private partnerships:** Project delivery agreements worth KSh67.5 billion (\$667m) for a tech city and an expressway.¹⁵ The public private partnership (PPP) deals include the **Konza Data Centre** and **Smart Cities** deal, worth KSh17.5 billion (\$173m) while the **JKIA-James Gichuru** expressway project is worth KSh50 billion (\$500m). The Konza project, situated about 80km south east of Nairobi, was conceived in 2017 by the ICT ministry and controversial telecommunications giant **Huawei** and entails the development of core infrastructure including a **National Cloud Data Centre**, **Smart ICT Network**, **Public Safe City** and **Smart Traffic Solution**, and a **Government Cloud** and **Enterprise Service**. It is part of the **Konza Techno City**, a **Kenya Vision 2030** development flagship project started in 2008 and aimed at developing technology-intensive and high-tech industries in ICT, biotechnology and e-commerce. The construction of the expressway is expected to ease traffic flow on the busy Mombasa highway as part of government interventions to decongest key roads in Nairobi. It will be the first of its kind in Africa, with features such as underpasses, overpasses, exits and the **Bus Rapid Transit (BRT)** component covering the entire stretch.
- **Agricultural exports:** China is expected to absorb 40% of Kenya's hass avocado production after farmers signed an agreement to export avocados to China.¹⁶ A further 13 other priority products include flowers, mangoes, French beans, peanuts, vegetables, meat, herbs, bixa and macadamia nuts.

... as Raila Odinga wedges himself into a position of power and influence

President Kenyatta's decision to include Raila Odinga in the high level BRI delegation came as a surprise to many local observers and served to highlight the extraordinary position of influence which China's state-owned press agency **Xinhua** duly noted in its press review as signalling the opposition **Orange Democratic Movement's** "*growing influence in government*". The surprise is also because Odinga has been a fierce critic of the extreme cost overruns of the SGR project.

Odinga's inclusion and apparently quiet acceptance of the loan deal have increased rumblings and tensions within the ruling **Jubilee Party**, which uneasily groups two historically hostile ethnicity-based factions – **Kikuyu** supporters of Kenyatta and **Kalenjin** supporters of deputy president **William Ruto**. The Jubilee Party has now split back into its factions over the presidential succession, which is due to take place after elections in 2022. Ruto's faction and followers have blamed the division on Odinga, who fell out with Kenyatta over the 2017 election results, which led to their cancellation and a re-vote. Kenyatta and Odinga reconciled in March 2018 in a deal known locally as the handshake, the details of which are largely secret.¹⁷

Kenyatta appears to be using his apparent newfound closeness to Odinga as a buffer against the ambitious Ruto and to undermine Ruto's ambitions as successor as Kenyatta's term draws to a constitutional close in 2022. Kenyatta has taken to calling Odinga his brother.

Publicly, Ruto is keeping up appearances:

*"There are no factions in Jubilee. We are one family and our purpose is to serve Kenyans."*¹⁸

¹⁵ Press release, The Presidency, 26 Apr 2019

¹⁶ Daily Nation 24 April 2019

¹⁷ Daily Nation, 22 Apr 2019.

¹⁸ CapitalFM, 14 Apr 2019.

At the same time Ruto has reserved his withering criticism for Odinga, calling him a “*busybody*” and “*a wolf in sheep's clothing*” determined to undermine Jubilee. In the run up to the China visit, Kenyatta appeared to give Ruto a dressing down, criticising him as petty, and said that he and Odinga

“... have just been talking about issues affecting our people. If it's infrastructure, what do we need to do? We discuss and we support each other. We sit; we discuss; we agree. He (Odinga) also gives me ideas that enhance something and make it even better. What is wrong with that?”¹⁹

What is wrong is that the game of isolation and inclusion in Kenya's power play between Ruto, Kenyatta and Odinga is like the game of **Russian** roulette – lethal. In 2007 it resulted in the deaths of 1,200 fellow nationals, displacement of 350,000 people and an economic retraction of over 10%.

Planner

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

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

Chronology

26 Apr 2019 **Nairobi (Kenya)** *Press release*. The president's office says it has secured a KSh67.5 billion (\$667m) funding package from **China** through concessional funding and private-public partnerships;

25 Apr 2019 **Nairobi (Kenya)** *Moneyweb*. Treasury secretary **Henry Rotich** says the economy grew at 6.3% in 2018, the fastest rate in eight years;

24 Apr 2019 **Nairobi (Kenya)** *KBC*. **United Kingdom**-based oil company **Tullow Oil** says it will make its first crude oil export from **Kenya** between July and September 2019;

24 Apr 2019 **Athi River (Kenya)** *Journal du Cameroun* **United States**-based **Mars Wrigley Confectionery** inaugurates a new \$70m plant on the outskirts of **Nairobi** as it seeks to diversify its local confectionery product portfolio;

22 Apr 2019 **Lilongwe (Malawi)** *Region Week*. **Malawi** begins using the **Mosquirix** vaccine as part of routine immunisation to protect against malaria, and **Kenya** and **Ghana** are expected to start next week;

18 Apr 2019 **Nairobi (Kenya)** *Business Daily Africa*. The **United Kingdom (UK)** high commissioner to **Kenya**, **Nic Hailey**, says the UK government will form a special team to help Kenya trace and recover corrupt assets in **London**;

16 Apr 2019 **Nairobi (Kenya)** *BBC*. The **Federation of Kenya Employers** criticises the government's planned 1.5% employee tax to pay to a housing fund;

16 Apr 2019 **Nairobi (Kenya)** *Bloomberg*. **Central Bank of Kenya** governor **Patrick Njoroge** expects negotiations with the **International Monetary Fund** for a new stand-by loan to conclude in the next few months;

13 Apr 2019 **Mandera (Kenya)** *Daily Nation*. The government says it will not pay any ransom money to release **Cuban** doctors abducted by suspected **al-Shabab** gunmen;

9 Apr 2019 **Nairobi (Kenya)** *The Africa Report*. The **Central Bank of Kenya** reports that public debt rose to \$53.6 billion in February, up from \$45.3 billion in December 2018;

9 Apr 2019 **Nairobi (Kenya)** *Bloomberg*. State-controlled **Kenya Airways Plc** says it will be profitable in four years if the government approves plans to replace the airports authority as

¹⁹ Daily Nation, 19 Apr 2019.

operator;

8 Apr 2019 **Nairobi (Kenya)** *Daily Nation*. The **World Bank** forecasts 5.7% economic growth for **Kenya** in 2019, down from 5.8% in 2018 due to drought;

4 Apr 2019 **Nairobi (Kenya)** *BBC*. A fire forces terminal 1C of the **Jomo Kenyatta International Airport** to close;

4 Apr 2019 **Nairobi (Kenya)** *Daily Nation*. President **Uhuru Kenyatta** forecasts 6.3% economic growth in 2019 due to an improved business environment;

3 Apr 2019 **Nairobi (Kenya)** *Standard Media*. Local media reports that several large manufacturing companies are relocating to **Ethiopia** due to the high cost of electricity in **Kenya**;

1 Apr 2019 **Nairobi (Kenya)** *Daily Nation*. Telecommunications company **Safaricom** loses close to 1% of market share in **Kenya**, the fifth straight quarter it has lost part of its market share;

28 Mar 2019 **Nairobi (Kenya)** *Business Daily Africa*. President **Uhuru Kenyatta** offers land to **Uganda** to build a dry port in **Naivasha**;

27 Mar 2019 **Nairobi (Kenya)** *Central Bank of Kenya* The **CBK Monetary Policy Committee** holds the Central Bank Rate at 9%;

26 Mar 2019 **Nairobi (Kenya)** *Capital FM*. Director of public prosecution **Noordin Haji** says that **Kenya** may have lost up to 16.8 billion Kenyan shillings (\$166m) due to corruption from April 2018 to January 2019;

26 Mar 2019 **Nairobi (Kenya)** *Daily Nation*. **Ugandan** President **Yoweri Museveni** begins a two-day official visit to **Kenya**;

25 Mar 2019 **Turkana (Kenya)** *Daily Nation*. The government sends food and water relief to **Turkana** and **West Pokot** due to drought;

22 Mar 2019 **Nairobi (Kenya)** *Daily Nation*. **Kenya** plans to submit its border dispute with **Somalia** to the **International Court of Justice**;

20 Mar 2019 **Nairobi (Kenya)** *Daily Nation*. **Kenya Railways** acting director **Philip Mahinga** negotiates another \$3.7 billion loan with **China** to complete the third phase of the standard gauge railway;

20 Mar 2019 **Nairobi (Kenya)** *africanews*. Police seize \$20m of counterfeit banknotes from a safety deposit box in **Barclays Bank Kenya** and arrest six people, including two bank staff;

18 Mar 2019 **Nairobi (Kenya)** *Kenyans.co.ke*. Debt repayments to **China** double from \$62.5 in 2016 to \$152.8m in 2018;

18 Mar 2019 **Nairobi (Kenya)** *ICIJ*. A high court strikes down a tax agreement with **Mauritius** finding that the double tax avoidance agreement was unconstitutional;

15 Mar 2019 **Nairobi (Kenya)** *africanews*. The **United Kingdom** invests \$2.2m in two solar plants in rural Kenya;

15 Mar 2019 **Nairobi (Kenya)** *Citizen*. **Commercial Bank of Africa** shareholders accept a share swap merger with **NIC Group**;

14 Mar 2019 **Nairobi (Kenya)** *BBC*. Members of parliament demand an investigation into a 10-kilometre border fence with Somalia, which cost \$35m to build;



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Please contact us by email info@africariskconsulting.com or call + 44 (0) 20 7078 4080
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