

**AFRICA RISK CONSULTING****Kenya Monthly Briefing November 2018**

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**Kenya Summary 19 November 2018**

*Kenyans brace for an increase in the cost of living as the shilling reaches its lowest value since January and fuel prices increase. Unabated public borrowing raises concerns around Kenya's debt risk despite bringing about national economic growth. United Kingdom (UK)-based Tullow Oil is set to begin shipments of crude oil from Kenya and to build an oil pipeline in early 2019, waiving previous security concerns surrounding the project. Kenya improves its ranking in the World Bank's Doing Business Report to 61<sup>st</sup> among 190 countries, featuring as one of the top 10 most improved countries. Safaricom announces a 7.7% revenue increase amid a burgeoning and innovative telecoms industry.*

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**Fuel price increases, lower shilling set to raise cost of living...**

**Central Organisation of Trade Unions (COTU)** secretary general **Francis Atwoli** released a statement on 14 November threatening to sue the government over the recent hike of fuel prices (see *ARC Briefing September 2018*).<sup>1</sup> Atwoli's proposed legal challenge illustrates a widespread public sentiment that the cost of living in Kenya is increasing at a rapid and unfair rate, which may affect the popularity of President **Uhuru Kenyatta** (2013-present) and his ruling **Jubilee Party**. Adding to the introduction of a controversial 8% levy on petroleum products in September, the **Energy Regulation Commission** raised fuel prices another 2.5 shillings (\$0.02) per litre on 14 November.<sup>2</sup> Atwoli argues that the increase in fuel prices is a step too far in the increasing cost of living for **Kenyans**, many of whom already find it hard to cope with the high cost of living.<sup>3</sup>

A private sector source told ARC that Kenyans across the country are bracing for tax increases and for the cost of living to increase in response to Kenya's high levels of public debt and budget deficit.<sup>4</sup> The government slashed its budget by \$372.9m in September in an attempt to mitigate the deficit and repay its debts.<sup>5</sup> This, along with the increasing cost of fuel, electricity tariffs and mobile data, has shown the public that even the most essential products are subject to price hikes.<sup>6</sup>

The cost of living rose further after the **International Monetary Fund (IMF)** announced on 25 October that the Kenyan shilling was overvalued by 17.5%. The **Central Bank of Kenya (CBK)** has intervened periodically to artificially keep the value of the shilling between 101 and 102 to the **United States (US)** dollar. As a result, the IMF has reclassified the shilling as an "other managed arrangement" currency, rather than a 'floating' currency.<sup>7</sup> Throughout

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<sup>1</sup> The Star, 15 Nov 2018.

<sup>2</sup> The Star, 15 Nov 2018.

<sup>3</sup> The Star, 15 Nov 2018.

<sup>4</sup> Source, private sector, Nairobi

<sup>5</sup> The Standard, 21 Sept 2018.

<sup>6</sup> Source, private sector, Nairobi

<sup>7</sup> Kahawa Tungu, 25 Oct 2018.

October into November, the shilling depreciated to its slowest value since January, driving up prices for Kenyans.<sup>8</sup>

The austerity measures appear unlikely to prove effective in the government's bid to tackle the deficit. The **Kenya Revenue Authority (KRA)** missed its tax collection target by KSh60 billion (\$583m) for the third quarter of 2018 despite the introduction of higher tax rates.<sup>9</sup> The austerity measures may harm consumer confidence in Kenya and inhibit spending in the domestic economy. Investors to Kenya and Kenya-based businesses should be aware of the current domestic unwillingness to spend.

### ... while public borrowing continues unabated

Government borrowing continues unabated as austerity measures have so far failed to decrease its expenditure. The government's commitment to infrastructure investment combined with a vastly increased government administration since the 2012 devolution measures, have encouraged continued borrowing.<sup>10</sup> For the 2018/2019 fiscal year, Kenya seeks \$2.8 billion in syndicated loans and Eurobonds.<sup>11</sup> Looking further forward, Kenya signed an agreement on 12 November with the **European Union (EU)** to receive loans worth \$5.1 billion between 2018 and 2022.<sup>12</sup> **Laikipia County** issued a bond worth \$48.6m to pay for infrastructure amid its local budget deficit, the first bond of its kind.<sup>13</sup> The IMF adjusted its grading of Kenya's debt risk from low to moderate on 23 October due to the government's expensive infrastructure investment coupled with revenue shortfalls.<sup>14</sup> The government will thus need to pay more interest on its loans and give better yields on its bonds to entice investors to take a heightened risk.<sup>15</sup> New borrowing could further devalue the shilling.<sup>16</sup>

The government's borrowing is not, however, without utility. The **Kenya National Bureau of Statistics (KNBS)** announced on 28 September that Kenya's economy grew at a rate of 6.3% during the second quarter of 2018.<sup>17</sup> Increasing sophisticated public infrastructure financed with national debt has facilitated much of this growth. Investors should take a balanced view of Kenya's public finances, considering both the worsening terms of Kenya's national debt, but also the economic growth that the debt brings to Kenya.

### Tullow Oil to begin shipments of crude oil from Kenya in early 2019

**United Kingdom (UK)**-based oil exploration company **Tullow Oil** CEO **Paul McDade** told UK-based news agency **Reuters** on 6 November that Tullow expects to send the first shipments of crude oil to the global oil market from its oilfields in **Turkana County** during the first half of 2019.<sup>18</sup> These developments show an improvement in Tullow Oil's operating conditions. The company has already transported oil from its source to **Mombasa Port** for storage.<sup>19</sup> Tullow also plans to build an oil pipeline in Kenya during the first half of 2019 from its oil source in **Lokichar** to **Port Lamu** on the **Indian Ocean**.<sup>20</sup>

<sup>8</sup> Bloomberg, 12 Nov 2018.

<sup>9</sup> Business Daily, 18 Nov 2018.

<sup>10</sup> Source, private sector, Nairobi

<sup>11</sup> Bloomberg, 29 Oct 2018.

<sup>12</sup> Daily Nation, 13 Nov 2018.

<sup>13</sup> Business Daily, 15 Nov 2018.

<sup>14</sup> Reuters, 24 Oct 2018.

<sup>15</sup> Bloomberg, 24 Oct 2018.

<sup>16</sup> Bloomberg, 24 Oct 2018.

<sup>17</sup> The Standard, 5 Nov 2018.

<sup>18</sup> Reuters, 6 Nov 2018.

<sup>19</sup> The Standard, 7 Nov 2018.

<sup>20</sup> The Standard, 7 Nov 2018.

Tullow suspended its operations in Turkana County on 25 July following ongoing disruptions to their base in Lokichar resulting from a break-in and road blockades constructed by local people disgruntled about the distribution of proceeds from oil extraction in their locale (see *ARC Briefing Kenya August 2018*).<sup>21</sup> Tullow resumed operations by 7 August after the government guaranteed to improve relations between all stakeholders in the oil project and ensure security for Tullow Oil's employees and oil shipments (see *ARC Briefing Kenya August 2018*).<sup>22</sup> The government made further efforts to attract foreign investment both through debt and equity to its oil sector in early November with the first **Kenya Energy and Petroleum Capital Markets Day** in London (UK).<sup>23</sup> France-based fuel storage and distribution company **Rubis** made public its plans on 24 October to take over Kenya-based fuel marketing company **KenolKobil**.<sup>24</sup>

Tullow Oil's confidence in its Kenya project is a positive development in Kenya's oil sector. The government has shown great commitment to ensuring the success of oil export plans, a factor that should encourage other prospective investors.

### Kenya jumps 19 places in 2019 World Bank Doing Business rankings ...

The **World Bank's 2019 Doing Business** report lists Kenya as a notably improved business environment.<sup>25</sup> Kenya was among the top 10 biggest improvers, jumping from its position as 80<sup>th</sup> ranked in the 2018 report to 61<sup>st</sup> in the 2019 report.<sup>26</sup> Kenya maintained a strong business reform agenda, carrying out five key reforms in the past year to improve the business climate for small and medium-sized businesses: registering property, getting credit, paying taxes, protecting minority investors and resolving insolvency.<sup>27</sup> These developments highlight Kenya as a good operating and investment environment, particularly for digital businesses.

In the past year, Kenya made registering property easier by introducing an online system to pay fees and obtain digital certificates. As a result, the time for a business to register a property transfer has been reduced to 49 days from 61 days.<sup>28</sup>

In strengthening access to credit, Kenya advanced to a global rank of eight this year, from 29 the previous year.<sup>29</sup> It did this by introducing a new law on secured transactions that created a unified secured transactions legal framework. It also established a new unified and notice-based collateral registry.<sup>30</sup>

Kenya made paying taxes easier by merging all permits into a single unified business permit and by simplifying the value added tax schedule on its **iTax** platform.<sup>31</sup> Companies now require about 179.5 hours per year to file tax returns, down from 185.5 days in the previous year.<sup>32</sup>

<sup>21</sup> The East African, 23 Jul 2018.

<sup>22</sup> The Standard, 7 Aug 2018.

<sup>23</sup> The East African, 6 Nov 2018,

<sup>24</sup> Reuters, 24 Oct 2018.

<sup>25</sup> Doing Business 2019

<sup>26</sup> Daily Nation, 4 Nov 2018

<sup>27</sup> Doing Business 2019

<sup>28</sup> East African Standard, 1 Nov 2018

<sup>29</sup> East African Standard, 1 Nov 2018

<sup>30</sup> East African Standard, 1 Nov 2018

<sup>31</sup> Doing Business 2019

<sup>32</sup> East African Standard, 1 Nov 2018

Kenya made resolving insolvency easier by facilitating the continuation of the debtor's business during insolvency proceedings, providing for equal treatment of creditors in reorganisation proceedings, and granting creditors greater participation in the insolvency proceedings.<sup>33</sup>

Kenya's strongest improvement was in strengthening minority investor protection, where it moved from position 62 to 11.<sup>34</sup> It did this by increasing disclosure requirements, regulating the approval of transactions with interested parties and increasing available remedies if said transactions are prejudicial, increasing shareholders' rights and role in major corporate decisions and requiring greater corporate transparency.<sup>35</sup>

Kenya's ranking places it far ahead of many of its fellow **East African Community (EAC)** member states.<sup>36</sup> In **Africa**, with a score of 70.31 Kenya comes fourth after **Mauritius** (20), **Rwanda** (29) and **Morocco** at position 60.<sup>37</sup> Kenya beat **South Africa** and **Nigeria**, which came in at 82 and 146.<sup>38</sup>

	<b>Doing Business 2019 Ranking</b> (out of 190 countries) <sup>39</sup>
Kenya	61
Uganda	127
Tanzania	144
Rwanda	29
Burundi	168
South Sudan	185

### ... as Safaricom announces 7.7% revenue increase amid burgeoning telecoms industry

Telecoms company **Safaricom** announced a 7.7% increase in its six-month revenue for April to September.<sup>40</sup> Safaricom attributed this increase in revenue to increasing use of Safaricom's data and mobile finance services.<sup>41</sup> Safaricom's growth in revenue represents a series of new investments to Kenya's already advanced telecoms sector. South Africa-based telecoms company **Telkom** announced that it will launch mobile 4G internet via balloons operated by **Loon**, an affiliate company of US-based internet giant **Google**.<sup>42</sup> The **Kenya Communications Authority** and **Kenya Civil Aviation Authority** approved the project, which aims to connect rural Kenyans to high-speed mobile internet, on 14 November.<sup>43</sup> Similarly, a \$9.9m investment from the **Ministry of Information, Communications and**

<sup>33</sup> Doing Business 2019

<sup>34</sup> East African Standard, 1 Nov 2018

<sup>35</sup> Doing Business 2019

<sup>36</sup> Doing Business 2019

<sup>37</sup> Daily Nation, 4 Nov 2018

<sup>38</sup> Daily Nation, 4 Nov 2018

<sup>39</sup> Doing Business 2019

<sup>40</sup> IOL, 2 Nov 2018.

<sup>41</sup> IOL, 2 Nov 2018.

<sup>42</sup> Business Daily, 18 Nov 2018.

<sup>43</sup> Business Daily, 18 Nov 2018.

**Technology** into the domestic mobile phone industry announced on 23 October will help to ensure Kenya's regional primacy in this field.<sup>44</sup> In a further development, US-based ride hailing firm **Uber** announced a potential plan on 14 November to provide to Kenyan customers a service to book seats on minibus taxis (locally known as '*matatus*').<sup>45</sup>

Kenya's telecoms and technology sectors remain ahead of those in neighbouring countries. Uber plans to roll out its minibus taxi in **Kampala (Uganda)** and **Dar es Salaam (Tanzania)** only if the service succeeds in Nairobi.<sup>46</sup> Public sector support of the telecoms and technology sectors plays a vital role in putting Kenya at the forefront of technological advancements in **East Africa**.<sup>47</sup>

### Planner

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

16 Nov 2018 **Nairobi (Kenya)** *Standard Media*. The **Central Bank of Kenya** upholds fines on five banks over suspicious transactions linked to the **National Youth Service** scam;  
 14 Nov 2018 **Nairobi (Kenya)** *Business Day*. **Telkom Kenya** agrees to provide 4G connectivity via balloons operated by **Loon**, a sister company of **United States (US)**-based internet giant, **Google**;  
 6 Nov 2018 **Nairobi (Kenya)** *Business Day*. **United Kingdom (UK)**-based oil company **Tullow Oil** expects first crude shipments from **Kenya** to occur in the first half of 2019;  
 5 Nov 2018 **Nairobi (Kenya)** *BBC*. UK-based broadcaster **BBC** launches its largest bureau outside of the UK in **Nairobi**;  
 1 Nov 2018 **Nairobi (Kenya)** *Reuters*. Telecommunications company **Safaricom Plc** posts a 7.7% year-on-year revenue increase in the first half of 2018, due to growth in mobile financial services and data;  
 29 Oct 2018 **Nairobi (Kenya)** *Business Day*. A treasury official confirms that **Kenya** will offer \$2.8 billion in **Eurobonds** in 2018;  
 23 Oct 2018 **Nairobi (Kenya)** *Reuters*. Information minister **Joe Mucheru** sets aside \$9.9m to develop a domestic mobile phone industry;  
 23 Oct 2018 **Nairobi (Kenya)** *Reuters*. **France**-based fuel distribution company **Rubis SCA** plans to acquire **Kenya**-based oil marketer **KenolKobil Ltd**;

<sup>44</sup> Reuters, 23 Oct 2018.

<sup>45</sup> The Standard, 15 Nov 2018.

<sup>46</sup> The Standard, 15 Nov 2018.

<sup>47</sup> Business Daily, 18 Nov 2018.