

## AFRICA RISK CONSULTING

### Kenya Monthly Briefing February 2020

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#### Kenya Summary 24 February 2020

*Kenya's former president, Daniel arap Moi (1978-2002), dies in Nairobi aged 95, leaving a mixed legacy and ensuring that political jostling for the Rift Valley vote will increase in the short to mid-term. The announcement that the United States and Kenya will start discussions around a potential free trade agreement presents opportunity for East Africa's economic powerhouse but risks for regional integration. Kenya's dismal ranking on Transparency International's 2019 Corruption Perceptions Index vis-à-vis its neighbours, coupled with Ethiopia's and Rwanda's improving travel linkages and investment climates, rings alarm bells for Kenya's future as East Africa's business hub.*

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#### Moi's death reignites speculation around Rift Valley politics

The death of Kenya's former president, **Daniel arap Moi** (1978-2002), on 4 February is leading many in Kenya and around the world to reflect on his legacy, both good and bad. In power for 24 years, Moi became leader following the death of Kenya's post-independence president, **Jomo Kenyatta** (1963-1978). Moi entered the political stage in 1955 and throughout his long career in the public service acted as a mentor to many of the generation that came after him, today's political leaders. These protégés include current president **Uhuru Kenyatta** (2013-present), whom Moi selected as the presidential candidate for the then-ruling **Kenya African National Union (KANU)** in the 2002 elections. In a dramatic change to Kenya's political landscape, KANU lost power for the first time since independence with **National Rainbow Coalition** leader **Mwai Kibaki** (2002-2013) becoming president.<sup>1</sup>

Moi's death caused an outpouring of public grief in Kenya, where 200,000 people lined up in **Nairobi** to view his body as it lay in parliament house. It is estimated that 30,000 attended his state funeral at Nairobi's **Nyayo National Stadium** a stadium named after his philosophy of *Nyayo*, following in the footsteps of those before him.<sup>2</sup> President Uhuru Kenyatta referred to Moi as "*a legendary Son of Kenya and Africa*" in his speech at the state funeral.<sup>3</sup>

Moi's legacy remains a polarising topic in current day Kenya. His time in office was characterised by repressive rule and excessive use of force, leaving many reliving their experiences in the immediate aftermath of his death. Moi did, however, see the transition to multi-party democracy, and earned praise for stepping aside peacefully following his party's 2002 electoral defeat (Moi was constitutionally barred from running again), however he continued to retain influence in domestic party politics until his death. Regionally Moi was a proponent of integration and a supporter of the **East African Community (EAC)**.<sup>4</sup> His work in encouraging regional integration saw leaders from **Uganda, Rwanda, South Sudan** as well as former presidents of **Tanzania** attend his memorial. The Moi family's wealth has also been a topic of on-going discussion, with estimates that the former president's personal fortune is as high as \$3 billion, scattered among relatives around the world.<sup>5</sup>

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<sup>1</sup> The Africa Report, 19 Feb 2020

<sup>2</sup> East African, 18 Feb 2020

<sup>3</sup> Daily Nation, 11 Feb 2020

<sup>4</sup> East African, 18 Feb 2020

<sup>5</sup> The Africa Report, 19 Feb 2020

In a country that has seen many political dynasties in its short post-independence history, Moi's death has reignited speculation surrounding the political fortunes of his son, **Baringo** senator **Gideon Moi**. Although not the oldest of Moi's sons, Gideon is seen as the family's political future. He succeeded his father in the legislature in 2002 and has since cemented himself as a key figure in **Kalenjin** politics. The death of the former president will further ignite the tussle for the Kalenjin vote in the **Rift Valley** in the lead up to the 2022 elections.<sup>6</sup> While former president Moi's exit from politics created an opportunity for his son Gideon and KANU, it simultaneously opened up an opportunity for current deputy president **William Ruto**, representing the ruling **Jubilee Party**, to raise his credentials in the Rift Valley. Ruto and Moi will continue to battle for supremacy in the Rift Valley as securing such support will be key for either candidate's future presidential aspirations.

The timing of an increased tussle for the Rift Valley vote is interesting. President Kenyatta has taken steps in recent months to sideline deputy president Ruto's influence, most recently evidenced in the marginalisation of Ruto's allies, such as former agriculture secretary **Mwangi Kiunjuri**, in the 14 January cabinet reshuffle. With Ruto out of favour, Gideon Moi may use the increased momentum to solidify his support, a campaign that may attract tacit support from the president.<sup>7</sup>

Additional attempts by the president to marginalise his deputy are likely, and will lead to further fractioning within the Jubilee party's leadership. Gideon Moi will no doubt capitalise on any further fractioning. Distractions among the highest levels of government will continue to colour domestic political decision making, taking valuable time and attention away from key issues currently facing the country, including real concerns around the trajectory of its economy.

### US and Kenya commence work on free trade deal

President Uhuru Kenyatta's visit to **Washington (United States)**, where he met with dignitaries including President **Donald Trump** (2017-present), has led to progress on a potential **US-Kenya Free Trade Agreement**.<sup>8</sup> If successfully implemented, Kenya will become the second African country after **Morocco** to sign a free trade agreement with the US, and the first **sub-Saharan African** country to do so. US trade representative **Robert E. Lighthizer** announced on 6 February that "*there is enormous potential for us to deepen our economic and commercial ties*".<sup>9</sup> Kenyatta expanded on this notion during a speech at the **US Chamber of Commerce** in Washington the same day where he applauded the partnership potential between the US and **Africa**, stating that:

*"It is this shared common value – belief in freedom, democracy and enterprise – that makes me believe that the United States can and should be the partner of choice for the African continent."*<sup>10</sup>

Washington's push to build closer ties with **East Africa's** economic powerhouse is no doubt in part an effort to counter the ever-increasing influence of **China** in the region. Through its **Belt and Road Initiative**, China was commissioned to finance and build the \$4-billion railway between Nairobi and **Mombasa**. If signed, the free trade agreement would effectively replace for Kenya the rules governing the **African Growth and Opportunity Act (AGOA)**. AGOA, signed in 2000 and due to expire in 2025, allows some African nations to export to the US without tariffs or quota restrictions on approximately 6,500 products. If AGOA is not renewed, a US-Kenya free trade agreement could act as a template for other African countries if they, too, seek to negotiate bilateral agreements.

Kenya and the US currently conduct approximately \$1 billion in trade annually. Over 70% of Kenya's exports to the US fall under AGOA, making Kenya the fifth largest exporter under the agreement.

<sup>6</sup> Daily Nation, 20 Feb 2020

<sup>7</sup> Bloomberg, 14 Jan 2020

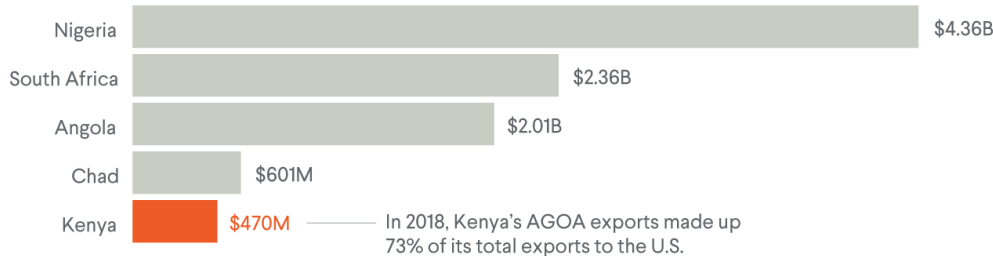
<sup>8</sup> The Washington Post, 7 Feb 2020

<sup>9</sup> The Washington Post, 7 Feb 2020

<sup>10</sup> The Washington Post, 7 Feb 2020

## Kenya Among Top AGOA Exporters

Largest AGOA exporters to U.S., 2018



Source: International Trade Administration.

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Kenya's decision to pursue a bilateral trade agreement with the US has, however, attracted criticism from those who argue for regional integration and collective bargaining. **Mukhisa Kituyi**, secretary-general of the **United Nations Conference on Trade and Development**, and **Erastus Mwencha**, former head of the **Common Market for Eastern and Southern Africa**, noted in a joint statement that *"Kenya should not provide cracks in the armour of those who have pushed for further collective engagement"*.<sup>12</sup>

While any trade deal would take years to finalise, in the short-term the focus in Africa has been on what a successful free trade agreement would mean for Kenya's commitment to the **African Continental Free Trade Agreement (AfCFTA)**. AfCFTA, of which Kenya was one of the earlier signatories, does not allow bilateral FTA's with third parties. Additionally, Kenya's decision to pursue an FTA has put it at loggerheads with the EAC regulations, as Section 37 of the **EAC Customs and Union Protocol** states that members need to inform their partners of their intentions before any bilateral agreements are signed – although the events in Washington did not involve the signifying of the agreement, just a commitment to pursue one.<sup>13</sup>

If AGOA is not renewed, and no bilateral treaty is in place, Kenya is likely to find itself at a disadvantage come 2025 vis-à-vis its neighbours. Many of these can trade with the US under the concessions outlined in the **Least Developed Countries Framework**, benefitting from a preferential trading status, for which Kenya does not qualify. The way in which the FTA evolves, and is potentially executed, will impact Kenya's commitment to regional trading blocs and may act as a catalyst for other countries to pursue such bilateral outreach in the hope of securing preferential treatment before AGOA lapses, leading to increased chances of regional and sub-regional frictions and trade disputes within the continent.

### Corruption risk threatens Kenya's regional economic supremacy

Germany-based non-governmental organisation **Transparency International's 2019 Corruption Perceptions Index (CPI)** paints a bleak picture for Kenya's trajectory and, critically, its ability to attract and maintain investment. The index scores countries and territories according to their perceived levels of public sector corruption and rates countries against each on a scale of zero (highly corrupt) and 100 (very clean).<sup>14</sup> The 2019 CPI, released on 23 January, ranked Kenya 137<sup>th</sup> out of the 180 countries surveyed in 2019, representing a seven-place improvement on the previous year where it ranked 144<sup>th</sup> with 27 points.<sup>15</sup> Regionally, however, Kenya did not fare so well. By comparison,

<sup>11</sup> Council on Foreign Relations, 21 Feb 2020

<sup>12</sup> Bloomberg, 16 Feb 2020

<sup>13</sup> The East African, 16 Feb 2020

<sup>14</sup> Transparency International's 2019 CPI Report

<sup>15</sup> Transparency International, 2018 & 2019

Rwanda ranked 51<sup>st</sup>, **Ethiopia** and Tanzania tied at 96<sup>th</sup> and Uganda tied with Kenya at 137<sup>th</sup>, meaning that Kenya only ranked higher than **Burundi**, which came in at 165 out of the 180 countries surveyed. Kenya also falls below the sub-Saharan African average of 32 points.

TI 2019 CPI Rankings for Kenya					
	2019	2018	2017	2016	2015
<b>Ranking</b>	137/180	144/180	143/180	145/176	139/168
<b>Score</b>	28	27	28	26	25

As the most established economic powerhouse in the region, Kenya's consistently low ranking in the CPI vis-à-vis its neighbours has the ability to impact its future regional competitiveness. Challenges in this regard are emanating from Rwanda, with its ambition of becoming a finance and tech hub, and Ethiopia, with a population in excess of 100 million, which is currently attempting to liberalise its economy and become a manufacturing hub for the region and the continent.

Kenya fares better in the **World Bank's Ease of Doing Business Report** for 2020, coming in 55<sup>th</sup> place out of the 190 countries surveyed, significantly better than the majority of its regional neighbours.<sup>16</sup> The rankings are an annual barometer that uses a variety of indicators to assess the business environments of World Bank member states. These indicators include starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency. In the 2020 report, released on 24 October last year, Uganda ranked 116, Tanzania 141, Ethiopia 159 and Burundi 166<sup>th</sup>. Rwanda however exceeds its peers with a ranking of 38, the second highest of any African country (**Mauritius** ranked 13), and one of just two African countries to be ranked in the top 50.<sup>17</sup>

Additionally, from a flight linkage perspective, **Rwanda Air**, established in 2003, is becoming a regional force. The announcement on 10 February that **Qatar Airways** is purchasing a 49% stake in the state-owned airline is likely to see an increase in capital flows from the wealthy gulf nation that is looking to further diversify its interests across Africa.<sup>18</sup> State-owned **Ethiopian Airways**, established in 1946 (prior to **Kenya Airways**, which commenced operations in 1977), is growing with pace, establishing itself as Africa's premier airline. It announced on 17 January that it plans to build a new \$5 billion airport in **Bishoftu** (39 km south-east of capital **Addis Ababa**) in the next four years with a capacity to handle 100 million passengers a year, and this is likely to increase the airline's popularity and the country's attractiveness to investors.<sup>19</sup>

Rwanda's gains should be of increasing concern for Kenya, which has long marketed itself as East Africa's start-up hub. With its limited levels of corruption and efficiency in doing business, Rwanda is working to incentivise the growth of this market, offering small and medium-sized enterprises (SMEs) a two-year exemption from paying for their trading licences.<sup>20</sup> Recent and emerging corruption scandals such as the incident involving Kenya's former Cabinet Secretary for Sport, **Rashid Echesa**, in a fake arms scandal will only continue to harm Kenya's reputation compared to its neighbours, and unless properly addressed, will continue to see investors look for alternative locations for setting up their operations.<sup>21</sup>

<sup>16</sup> World Bank, 2020

<sup>17</sup> World Bank, 2020

<sup>18</sup> The Africa Report, 10 Feb 2020

<sup>19</sup> Simple Flying, 17 Jan 2020

<sup>20</sup> World Bank, 2020

<sup>21</sup> Daily Nation, 13 Feb 2020

## Planner

9-10 Mar 2020 **Abidjan (Cote d'Ivoire)** Africa CEO Forum;

30 Mar-3 Apr 2020 **Nairobi (Kenya)** Annual Summit on Investment Opportunities in Kenya;

8 Jun 2020 **The Hague (Netherlands) International Court of Justice (ICJ)** hearings for **Maritime Delimitation in the Indian Ocean (Somalia v. Kenya)** case to begin;

19-21 Aug 2020 **Nairobi (Kenya)** Kenya Financial Services Conference and Expo; and

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

## Chronology

20 Feb 2020 **Nairobi (Kenya)** *Business Daily Africa*. Majority state-owned **Kenya Electricity Generating Company (KenGen)** is looking to expand its remit and is considering geothermal infrastructure tenders in nine **African** states as it seeks to increase its revenue;

20 Feb 2020 **Nairobi (Kenya)** *Business Daily Africa*. International tobacco group **British American Tobacco** announces a dip in profit in Kenya of 4.9% for the year ending 31 December 2019 as a result of increased taxation;

20 Feb 2020 **Nairobi (Kenya)** *Business Daily Africa*. **Kenya Association of Manufacturers** protests the lifting of some import rules that they argue will make it easier for sub-standard products to enter the market;

18 Feb 2020 **(Nairobi) Kenya** *BBC*. A **Chinese** citizen is quarantined in **Nairobi** due to suspected coronavirus;

18 Feb 2020 **Nairobi (Kenya)** *The Standard*. The **New Kenya Planters' Cooperative Union (KPCU)** is the beneficiary of a Sh3 billion (\$29m) kitty to help provide subsidised loans, at just 3%, to help coffee farmers increase their investments and stimulate growth in the industry;

17 Feb 2020 **Nakuru (Kenya)** *The Standard*. A court case by 500 **Mau Forest** residents challenging their eviction commences in **Nakuru**;

16 Feb 2020 **Nairobi (Kenya)** *BBC*. Kenya's ambassador to **South Sudan**, **Chris Karumba Mburu**, dies in **Juba** after suffering a heart attack;

14 Feb 2020 **Nairobi (Kenya)** *The Standard*. Attorney general **Kihara Kariuki** distances his department from the contentions Sh63 billion (\$622mn) **Managed Equipment Services Scheme** programme, asserting that his department was not involved in any review process;

13 Feb 2020 **Nairobi (Kenya)** *Daily Nation*. Former cabinet secretary for sport **Rashid Echesa** is arrested over his alleged involvement in a fake arms scandal;

12 Feb 2020 **Nairobi (Kenya)** *Business Daily Africa*. Cabinet secretary without portfolio **Raphael Tuju** is airlifted to **Karen Hospital** in Nairobi following a car crash on the **Nakuru-Nairobi** highway;

11 Feb 2020 **Nairobi (Kenya)** *Business Daily Africa*. **United States**-based technology company **Google** is no longer seeking to buy a 12.5% interest in the **Lake Turkana Wind Farm** due to further project delays relating to the transmission line;

10 Feb 2020 **Johannesburg (South Africa)** *Reuters*. Gold producer **Shanta Gold** has acquired **Barrick Gold's** exploration assets in southern **Kenya**, its first project outside of **Tanzania**;

7 Feb 2020 **Nairobi (Kenya)** *Business Daily Africa*. Any public project valued in excess of Sh100 m (\$985,000) will now require direct approval from the **Treasury**, as part of the **Public Investment Management** guidelines, as the government continues to crack down on white

elephant projects;

6 Feb 2020 **Washington (United States)** *The Wall Street Journal*. **United States (US)** President **Donald Trump** announces that negotiations towards a potential **US-Kenya** trade deal are being launched, which, if successful, would be the first of such deals with a **sub-Saharan African** country;

6 Feb 2020 **Nairobi (Kenya)** *Business Daily Africa*. **Australia**-based mineral sands producer **Base Minerals** announces that it paid Sh2 billion (\$20.7m) in corporate income tax in Kenya in the last three months of 2019 with ongoing large tax contributions upcoming as the company has exhausted its remaining tax deductions earned via its initial investment in the project;

4 Feb 2020 **Nairobi (Kenya)** *Nairobi News*. Former president of Kenya **Daniel arap Moi** passes away at **Nairobi Hospital** at the age of 95;

31 Jan 2020 **Nairobi (Kenya)** *The East African*. **Kenya Airways** announces that it is suspending all flights to and from **Guangzhou (China)** due to fears over the spread of the **coronavirus**;

30 Jan 2020 **Nairobi (Kenya)** *The East African*. **Education First** ranks Kenyans as the second most fluent English speakers across **Africa**, trailing just **South Africa**, however **Nairobi** is ranked the most fluent city across the continent.

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