

## AFRICA RISK CONSULTING

### Kenya Monthly Briefing May 2020

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#### Kenya Summary 24 May 2020

*The government's response to the Covid-19 pandemic is rolling, swift, decisive yet measured, and appears to have contained the virus' spread. The risk of new infections now comes from neighbouring countries, notably Tanzania. President Uhuru Kenyatta (2013-present) has closed Tanzania and Somali borders except for trucks whose drivers are tested, causing regional trade disruption. Though Kenya wins praise internationally, polls show Kenyans rate their government's response poorly as politicians continue their internecine succession battles. The disaffection may be that outside the immediate management of the Covid-19 crisis, the increasingly toxic succession battle continues to dominate the political environment. Nevertheless, Kenyatta's management of the domestic economic crisis has been consistent and far reaching: an eight-point KSh53.7 billion (\$502m) economic stimulus plan is extensive but stretches the government's budget deficit and external debts to their limits.*

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#### Kenya's Covid-19 response a success?

The **Kenyan** government's response to the **Covid-19** pandemic was swift, decisive and yet measured and, although it is early days, it appears to have had the desired effect of containing the pandemic. As at 22 May, the country had cumulatively tested 57,650 samples and reported 52 deaths for a confirmed number of cases of the virus of 1,192.<sup>1</sup>

*"Leaving aside not testing, anecdotal evidence suggests that the containment measures are having the desired effect. Testing is slow but we certainly don't have reported queues of people outside hospitals or reports of lots of deaths. We would know if there were large numbers of deaths."*<sup>2</sup>

Kenya has kept its focus on targeted measures to test, trace, isolate and treat in areas of high infections. On 23 May during a presidential briefing on Covid19, President **Uhuru Kenyatta** (2013-present) extended by 21 days an existing dusk-to-dawn curfew and a ban on movement in and out of areas of Kenya worst hit by the coronavirus outbreak.<sup>3</sup> Kenya first imposed restrictions of movement in and out of the capital, **Nairobi**, as well as **Mombasa**, **Kilifi**, **Kwale** and **Mandera** counties in April.

Kenya now sees the risk of new infections to be coming from neighbouring countries, notably **Tanzania**. Business sources report that the situation in Tanzania is the main concern, as a number of new infections in Kenya recently have come from truck drivers at the border.<sup>4</sup> Unlike fellow **East African Community (EAC)** member countries **Rwanda**, **Uganda** and Kenya, Tanzania's president, **John Magufuli** (2015-present) has refused to take tough measures to contain the virus' spread. On 16 May Kenyatta banned all public movement across the country's borders with Tanzania and **Somalia**, except cargo trucks, providing drivers could prove they are Covid-19 free. Transport cabinet secretary **James Macharia** said on 19 May that all truck drivers in Kenya must now be tested for Covid-19 two days before they begin their journey and obtain a certificate declaring them Covid-19 free. Kenyatta's closure and testing regime will remain in place until mid-June. This move follows **Zambia**, which shut its border with Tanzania after border towns showed a spike in infection rates (*ARC Briefing Zambia May 2020*).

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<sup>1</sup> Johns Hopkins University <https://coronavirus.jhu.edu/map.html>, accessed 24 May 2020

<sup>2</sup> ARC source, partner Nairobi law firm

<sup>3</sup> Ministry of Health statement, 23 May 2020

<sup>4</sup> Business sources, Kenya, 24 May 2020

The new health measures have had a severe impact on trade in the region. Tanzania's border authorities responded by banning Kenyan drivers from crossing the border, saying their cargo should be collected by Tanzanians. Presidents Magufuli and Kenyatta have since arranged transport minister-level discussions to ease trade backlog.

Despite border tensions, Kenya (with Rwanda and Uganda) has won praise for its measured and targeted response. Existing restrictions include:

- An international flight ban except for returning Kenyans;
- Established isolation units, with 14 counties on alert;
- A stay-at-home policy remains in place with restrictions on travel between counties;
- Everyone must wear masks in public;
- Only two passengers in a 5-seater car;
- A March enforced night-time curfew between 7pm and 5 am has been extended to 6 June;
- Public gatherings are banned; schools and government offices are closed.

### Politics as usual ...

While most businesses have praised the government for the measures that have slowed the spread of the virus while allowing people to continue making a living, this sentiment is not shared in the population. A poll conducted in early April in 12 **African** countries suggested that Kenyans were the least effusive about their government's response to Covid-19 when presented with the statement "*My government has done enough to stop the spread of coronavirus.*"<sup>5</sup>

The disaffection may be that outside the immediate management of the Covid-19 crisis, the increasingly toxic succession battle continues to dominate the political environment. On 22 May the presidency succeeded in momentarily outmanoeuvring the deputy presidency in the high stakes succession and removed deputy speaker **Kithure Kindiki** – a supporter of vice president **William Ruto** – accusing him of disloyalty to the ruling **Jubilee Party** and disrespect to its leader in what **Citizen TV** described as an "*on-going Jubilee Party crackdown*".

Despite the global health crisis, the 2022 general election battleground dominates non-Covid-19 politics and the ground for 2022 has taken shape. It continues to pit President Kenyatta against vice president Ruto, with Kenyatta in an apparent alliance of convenience with the seemingly eternal opposition leader, **Raila Odinga**. The contest between Kenyatta and Ruto is control of the ruling Jubilee Party and national politics in the run up to the elections.

The Jubilee Party is already split into two factions known as **Tangatanga** and **Kieleweke**:<sup>6</sup>

- The Tangatanga faction derives its name from a public rebuke of Ruto by President Kenyatta during 2018 and has become the rallying cry for Ruto's supporters;
- The Kieleweke faction comprises people closely associated with the president who are determined to stop Ruto from succeeding Kenyatta.

The main prize is executive power after 2022. Kenyatta and Odinga are reportedly conspiring to alter the constitution to facilitate a split executive between a presidency and prime minister which might allow Kenyatta to serve as prime minister in an Odinga presidency once his second, and final, term as president ends. Odinga's **Orange Democratic Movement** has been pushing for a constitutional referendum before end of 2020 to facilitate this and to, finally, secure an Odinga presidency in 2022. However, Covid-19 makes organising a referendum on the constitution this year highly unlikely.

The battle to secure a referendum got harder in mid-May when the Kieleweke faction tried and failed to take control of or change the leadership of Jubilee's **National Management Committee (NMC)**, so

<sup>5</sup> Geopoll, 9 Apr 2020

<sup>6</sup> Star Kenya, 28 Apr 2019

closing legal party avenues to change the succession. The ouster of the deputy-speaker appears to be in response.

*“The 2022 succession politics have fixed President Uhuru Kenyatta terribly between the Tangatanga rock and the ODM hard place. Uhuru is steadily becoming a pawn in the ugly rivalry between his deputy president and Raila.”<sup>7</sup>*

### ... as Covid-19 causes an economic heart attack

Kenya’s divisive politics have done little to hamper the skilful management of the domestic economic crisis that the global pandemic has provoked. Nevertheless, the **World Bank** in its most recent update on Kenya said that the Covid-19 pandemic could see economic growth decrease from 6.3% posted last year to 1% this year. This is a grimmer picture than that of finance minister **Ukur Yatani**, who put 2020 growth at between 1.8 % and 2.5 %.<sup>8</sup> Commentators comparing this to the previous economic shock after the political violence in 2007/8, which led to an economic contraction of 7% of GDP, say that this is *“much, much worse”*.<sup>9</sup>

The economic impact on business has been immediate.

- Kenya’s tourism industry is suspended: the tourism sector generates \$1.6 billion per year and brought in 2 million visitors in 2019. Many workers in tourism have lost their jobs and others rushed home to rural villages ahead of travel bans.<sup>10</sup>
- With no tourists coming from the global north, cargo space for Kenya’s perishables – mainly flower exports into the **European Union** – has ceased.
- Although the government has allowed restaurants to reopen with strict guidelines and restrictions, including testing of staff, the hospitality sector has been hit hard.
- Export earnings have been badly affected as has the currency: the shilling has depreciated by as much as 6% against the US\$
- As people stay home due to coronavirus, new car sales plunged 47% in April.
- Remittances from abroad have dropped off as Kenyans abroad have lost jobs or are not entitled to employment support measures in the countries in which they reside.
- Unemployment, both in the formal and informal sectors, has increased and raises concerns about security issues and potential civil unrest.
- A low oil price has reduced the import bill and although pump prices have reduced significantly, the restrictions on movement mean consumption volumes have greatly reduced.

On the positive side, several companies have managed to change how they do business:

- The **Nairobi Securities Exchange** suspended trading on 15 March as share index dropped 15% but has since resumed trading as it switched to remote trading overnight;
- Some restaurant, coffee outlets and food markets have managed to pivot into home delivery services using digital technology;
- Digital payments via **Safaricom**’s mobile money system, **M-Pesa**, have allowed liquidity to be maintained and government grants to reach the poorest in society, without people having to move from home or congregate or form queues for money or food supplies;

Government has supported the poorest and has sought to cushion the worst of the Covid-19 crisis. Measures include:

<sup>7</sup> Daily Nation, 23 May 2020

<sup>8</sup> Star Kenya, 20 Apr 2020

<sup>9</sup> ARC Source, partner Nairobi law firm

<sup>10</sup> Financial Times, 1 May 2020

- A KSh250m (\$2.4m) injection each week to vulnerable families, allowing them to stay home and buy locally;
- A KSh10 billion (\$93m) programme to increase recruitment from 26,000 to 200,000 youths to participate in a **National Hygiene Programme** under the **Kazi Mtaani Initiative** (community clean up programme).<sup>11</sup>

Business has broadly welcomed the government’s response and management of the crisis:

*“A massive percentage of the population lives from day-to-day. The government did the right thing to allow people to earn a living and not make it as draconian as in South Africa.”<sup>12</sup>*

### **Kenyatta’s economic defibrillator to the rescue?**

President Kenyatta on 23 May went further, introducing a massive injection of funds into the economy in an eight-point stimulus plan to cushion the economy and provide means to kick-start the recovery process. The eight points are outlined below:

<b>Kenyatta’s 8-point economic stimulus plan</b>		
<b>Infrastructure</b>	<ul style="list-style-type: none"> <li>• rehabilitate access roads, footbridges and other public infrastructure;</li> <li>• hire local labour;</li> </ul>	KSh5 billion (\$46.7m)
<b>Education</b>	<ul style="list-style-type: none"> <li>• hire 10,000 teachers;</li> <li>• hire 1,000 ICT interns to support digital learning;</li> <li>• improve school infrastructure;</li> <li>• acquire 250,000 locally made desks ;</li> </ul>	KSh6.5 billion (\$60m)
<b>Small and Medium Enterprises (SMEs)</b>	<ul style="list-style-type: none"> <li>• fast-track payment of outstanding VAT refunds and other pending payments;</li> <li>• pay bills in roads sector;</li> <li>• SME Credit Guarantee Scheme: seed capital to provide affordable credit to SMEs;</li> </ul>	KSh10 billion (\$93m) to add to earlier allocations of KSh30 billion (\$280m) KSh3 billion (\$28m) seed capital for SMEs
<b>Health</b>	<ul style="list-style-type: none"> <li>• hire 5,000 healthcare workers;</li> <li>• increase bed capacity in public hospitals with Covid-19;</li> </ul>	KSh1.7 billion (\$15.8m)
<b>Agriculture</b>	<ul style="list-style-type: none"> <li>• supply farm inputs through e-vouchers, targeting 200,000 small scale farmers;</li> <li>• support flower and horticultural producers to restore access international markets;</li> </ul>	KSh3 billion (\$28m) KSh1.5 billion (\$14m)
<b>Tourism</b>	<ul style="list-style-type: none"> <li>• soft loans to hotels and related establishments through the <b>Tourism Finance Corporation (TFC)</b>;</li> <li>• fund 5,500 community scouts for the <b>Kenya Wildlife Service</b>;</li> <li>• fund 160 community conservancies;</li> </ul>	KSh2 billion (\$18.7m) KSh1 billion (\$9.3m) KSh1 billion (\$9.3m)
<b>Environment</b>	<ul style="list-style-type: none"> <li>• rehabilitate wells, water pans and underground</li> </ul>	KSh850m (\$7.94m)

<sup>11</sup> President Uhuru Kenyatta’s statement 23 May 2020

<sup>12</sup> ARC source, partner in Nairobi law firm

	tanks in arid and semi-arid areas; <ul style="list-style-type: none"> <li>• improve flood control measures;</li> <li>• support for <b>Greening Kenya</b>; and</li> </ul>	KSh1 billion (\$9.3m) KSh540m (\$5m)
<b>Manufacturing</b>	<ul style="list-style-type: none"> <li>• “Buy Kenya Build Kenya” – a programme to encourage Kenyans to buy locally manufactured cars.</li> </ul>	KSh600m (\$5.6m)

Kenya operates a high fiscal deficit and has a high level of national debt, but Kenyatta has again taken clear and sector-wide steps to address the economic crisis and prepare for the recovery phase. Kenyatta’s actions are in keeping with the guidance that **International Monetary Fund (IMF)** managing director **Kristalina Georgieva** gave when she urged member states to spend whatever it takes to fight the Covid-19 pandemic and ignore the major damage that support packages will cause to already-fragile public finances: “*Spend spend spend, but keep the receipts.*”<sup>13</sup>

International donor support for this programme is essential and is likely to be forthcoming. On 2 April the **World Bank** approved a \$50m loan to help Kenya tackle the coronavirus, which is destined to boost capacity of frontline healthcare staff. Kenya has applied for \$350m from the IMF and will also seek support from the **African Development Bank (AfDB)** (see *ARC Briefing Kenya April 2020*).

### Heightened security with Somalia

Wary of increasing tensions between Kenya and **Somalia**, **Ethiopia**’s army has admitted that it was behind the shooting down on 4 May of a privately-owned plane in Somalia, saying it mistakenly believed the plane was on a “*potential suicide mission*”.<sup>14</sup> Initially Kenya assumed Somali forces had shot down the plane, which risked increasing already considerable tensions between Kenya and Somalia. The Kenyan-registered aircraft was undertaking a humanitarian mission when it crashed in the town of **Bardale** in the south-eastern bay region of Somalia.<sup>15</sup> The **African Express Airways** aircraft, which was delivering supplies relating to the coronavirus pandemic, was en route from the Somali capital **Mogadishu** to Bardale. Somali forces and Ethiopian troops secure Southern Somalia, Bardale and its surrounds; Ethiopian troops are part of the **African Union Mission to Somalia (AMISOM)**. The admission came after Somalia’s transport minister, **Mohamed Abdullah Salad**, and Kenyan and Ethiopian officials visited the crash site on 6 May.

Tensions between Somalia and Kenya had been mounting since March. In-fighting between federal Somali government groups and forces loyal to a regional leader spilled over into Kenyan territory. In April, Kenyan security officials said that members of the Somali army attacked members of the **Kenya Defence Forces (KDF)** who were on patrol in the area.<sup>16</sup>

<sup>13</sup> BBC News, 14 Apr 2020

<sup>14</sup> Borkena 9 May 2020

<sup>15</sup> New York Times, 6 May 2020

<sup>16</sup> New York Times, 6 May 2020

## Planner

1 Jun 2020 **(Kenya)** Madaraka Day national holiday;

June 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;

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

## Chronology

23 May 2020 **Dar es Salaam (Tanzania)** *The Citizen*. **Tanzanian** and **Kenyan** authorities release a joint communiqué claiming they have resolved a dispute over **Covid-19** tests for truck drivers crossing the **Namanga** border, saying truck drivers from both sides will now be tested;

21 May 2020 **Washington (US)** *FT*. **World Bank** approves \$500m to fight locust infection in **East Africa/Middle East** to counter an estimated \$8.5 billion in agricultural damage in the region; The locust infestation is East Africa's worst in 70 years and has affected 23 countries, including **Kenya, Ethiopia, Uganda, Somalia** and **South Sudan**;

19 May 2020 **Dar es Salaam (Tanzania)** *Reuters*. **China-based Huaxin Cement** buys **Kenya-based ARM Cement's Tanzanian** unit, paving way for completion of one of its production plants;

19 May 2020 **(Kenya & Tanzania)** *Business Daily*. A simmering diplomatic row between **Kenya** and **Tanzania** over **coronavirus**-induced border restrictions, is disrupting a trade route worth 61.5 billion Kenyan shillings (\$576m) annually;

19 May 2020 **Nairobi (Kenya)** *Daily Nation*. Treasury secretary **Ukur Yatani** says **Kenya** plans to spend 53.7 billion shillings (\$503m) on a post-**covid-19** economic stimulus package to support businesses with credit guarantees and loans;

18 May 2020 **London (UK)**. *FT Financial Times* names **Kenya's Amina Mohamed** as potential contender for leader of **World Trade Organisation (WTO)**;

16 May 2020 **Nairobi (Kenya)** *Daily Nation*. President **Uhuru Kenyatta** orders a 21-day extension of the nationwide dusk-to-dawn curfew and the closure of land borders with **Tanzania** and **Somalia** except for cargo transport;

14 May 2020 **(Horn of Africa)** *Council on Foreign Relations*. **United States**-based non-profit think tank **Council on Foreign Relations** says **African Union** leadership has been absent from **Egypt** and **Ethiopia's** dispute over the **Grand Ethiopian Renaissance Dam**;

12 May 2020 **Nairobi (Kenya)** *Daily Nation*. Residents of **Kariobangi** informal settlement in capital **Nairobi** protest against the demolition of the settlement and closure of **Korogocho** market, which served an estimated 100,000 people;

12 May 2020 **Nairobi (Kenya)** *Bloomberg*. **International Monetary Fund** raises **Kenya's** risk of debt distress to high from moderate due to the impact of the **covid-19** shock;

11 May 2020 **Nairobi (Kenya)** *The Star*. Health chief administrative secretary **Rashid Aman** says there is "every possibility" that **Kenya** might soon close its border with **Tanzania** after it emerged that five truckers from Tanzania brought **coronavirus** into Kenya;

9 May 2020 **Nairobi (Kenya)** *CGTN*. Transport cabinet secretary **James Macharia** announces new health regulations for public and cross-border cargo transport, saying all truck drivers in **Kenya** must now be tested for **covid-19** two days before they begin their journey and obtain a certificate declaring them covid-19 free;

9 May 2020 **Addis Ababa (Ethiopia)** *Borkena*. Ethiopia's army admits that it was behind the

shooting down of a privately owned **Kenyan** plane in **Somalia** on 4 May, saying they mistakenly believed the plane was on a "potential suicide mission";

7 May 2020 **Nairobi (Kenya)** *Daily Nation*. Financial technology credit provider **4G Capital** partners with insurance provider **Turaco** to offer an affordable health insurance package to its 104,000 micro and small business clients in **Kenya**;

7 May 2020 **Nairobi (Kenya)** *Ventures Africa*. Officials say the flooding disaster in western **Kenya** has killed nearly 200 people, displaced 100,000 and strained critical infrastructure in the country;

6 May 2020 **Nairobi (Kenya)** *IMF*. **International Monetary Fund** executive board approves 78 billion Kenyan shilling (\$739m) emergency financing to **Kenya** respond to the pandemic;

6 May 2020 **Nairobi (Kenya)** *Business Daily Africa*. The **Market Stanbic Bank Kenya Purchasing Managers' Index** shows that private sector activity in **Kenya** plunged in March to its lowest level since November 2017 due to the **coronavirus** pandemic;

6 May 2020 **(Africa)** *African Business*. Five international air transport and tourism bodies launch an appeal to international financial institutions, country development partners and international donors to support **Africa's** travel and tourism sector;

6 May 2020 **Cairo (Egypt)** *Ventures Africa*. **Egypt**-based private bank **Commercial International Bank** says it is targeting more buyouts in an expansion drive across **East Africa** following last month's acquisition of **Kenya**-based **Mayfair Bank**;

6 May 2020 **(Africa)** *Ventures Africa*. **MasterCard** survey shows that a significant majority of people in **Africa** and the **Middle East** have turned to contactless payments when making purchases for fear of contracting **covid-19** from 'infected' currency notes;

6 May 2020 **(East Africa)** *Ventures Africa*. **East African Community** tries to facilitate the transport of goods between member states as mandatory **covid-19** testing at borders hampers trade;

5 May 2020 **Nairobi (Kenya)** *Daily Nation*. Foreign ministry demands answers from **Somalia** following the shooting down of a **Kenyan** plane carrying humanitarian and medical supplies;

4 May 2020 **Nairobi (Kenya)** *Capital News*. Journalist **Mohammed Marjan** murdered in **Nairobi's** Kibera slum on **World Press Freedom Day** and **United States**-based **Human Rights Watch** urges Kenyan government to protect journalists reporting on **covid-19** following a rise in police brutality against journalists;

29 Apr 2020 **(Africa)** *African Business*. **African Union** delays the implementation of the **African Continent Free Trade Area** due to disruptions caused by the **coronavirus** outbreak;

27 Apr 2020 **Nairobi (Kenya)** *The East African*. **National Treasury** cabinet secretary **Ukur Yatani** says the economy expanded at a slower pace of 5.4% in 2019, down from 6.3% in 2018;

24 Apr 2020 **Nairobi (Kenya)** *Nasdaq*. **Central Bank of Kenya** says **Egypt**-based private **Commercial International Bank** has acquired a 51% stake in **Kenya**-based private **Mayfair Bank**, the latest in a string of deals in Kenya's banking sector.

22 Apr 2020 **Nairobi (Kenya)** *Bloomberg*. Parliament approves plan to start funding operations of the **China**-backed **Mombasa to Nairobi** railway using proceeds from a levy which was initially meant to finance land purchases for the project;

21 Apr 2020 **Nairobi (Kenya)** *EMPEA*. **Germany**-based development finance institution **DEG** agrees to invest up to \$10m in **Kenya**-based grocery retail distributor **Naivas**, along with co-investors **Amethis Finance** and **IFC**;

21 Apr 2020 **Nairobi (Kenya)** *EMPEA*. **Germany**-based development finance institution **DEG** provides financing to **Kenya**-based macadamia nut producer **Limbua** to support the expansion of its production;

16 Apr 2020 **Nairobi (Kenya)** *Bloomberg*. An industry probe ordered by President **Uhuru Kenyatta** has led to a ban on direct tea sales and the enforcement of an electronic-trading auction system;

14 Apr 2020 **Nairobi (Kenya)** *EMPEA*. **Germany**-based development finance institution **DEG** agrees to provide \$40m in financing to **Kenya**-based agricultural commodity trader and supply chain manager **ETG Group**;

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

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