

## AFRICA RISK CONSULTING

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*The opposition National Super Alliance (NASA) selects Raila Odinga as its presidential candidate and Kalonzo Musyoka as his running mate for the 8 August general election. NASA announces a power sharing agreement to placate other party leaders who did not make the ticket. Odinga's opposition Orange Democratic Movement (ODM) and President Uhuru Kenyatta's (2013-present) Jubilee Party both hold chaotic and, in some cases violent, primaries to select candidates ahead of the general election. The World Bank and International Monetary Fund (IMF) both offer positive medium-term outlooks for Kenya, but call on the government to revise the Banking Act (Amendment) 2015.*

#### NASA chooses Odinga as presidential candidate

The opposition **National Super Alliance (NASA)** named **Raila Odinga** as its presidential candidate for the 8 August general election on 27 April.<sup>1</sup> NASA's broad electoral base means Odinga is better placed than before his 2013 electoral defeat to President **Uhuru Kenyatta** (2013-present). At a rally in **Uhuru Park (Nairobi)**, NASA announced a deal under which Odinga would stand with **Wiper Democratic Movement (WDM)** leader **Kalonzo Musyoka** as his running mate.<sup>2</sup> This means that the presidential election will, in terms of candidates, be a rerun of 2013 when Odinga and Musyoka won 43.7% of the vote to 50.5% for Kenyatta and his running mate, and now vice-president, **William Ruto**. However, this election is not a repeat of the 2013 polls. NASA is a broader coalition than its 2013 predecessor, the **Coalition for Reforms and Democracy**. It includes **Amani National Congress (ANC)** leader **Wycliffe Musalia Mudavadi** who secured 3.9% of the vote as the **Amani Coalition** candidate in the 2013 presidential election.<sup>3</sup> In 2013, the **International Criminal Court (ICC)** cases in progress against Kenyatta and Ruto at the time crowded out policy debate. The ICC had indicted both Ruto and Kenyatta in 2011 to face charges for orchestrating some of the worst violence of the 2007 election. Ahead of this year's election, NASA is looking to focus the debate on the continuing economic slowdown, higher inflation, and government failures to curb corruption.<sup>4</sup>

*"There is growing frustration from Kenyans over the runaway corruption under the [ruling] Jubilee [Party] leadership and the high cost of living that has seen inflation rise to double-digit levels. Should NASA harness this anger, they could tip the scales in their favour."<sup>5</sup>*

The NASA national coordinating committee (NCC) had recommended the Odinga/ Musyoka ticket before the coalition's leadership convened in **Kilifi (Kilifi County)** on 10 April to select its presidential candidate.<sup>6</sup> The NASA NCC was reportedly divided on the merits of Odinga. Some argued his high national profile and long political experience mean he is best placed to challenge Kenyatta.<sup>7</sup> Odinga was prime minister between 2008 and 2013. Odinga is an ethnic **Luo** and son of Kenya's first vice president, **Oginga Odinga**. He is ambitious, politically astute and a master coalition builder.<sup>8</sup> The

<sup>1</sup> Standard, 27 Apr 2017.

<sup>2</sup> Standard, 27 Apr 2017.

<sup>3</sup> The Guardian, 9 Mar 2013.

<sup>4</sup> Source, journalist, Nairobi

<sup>5</sup> Source, journalist, Nairobi

<sup>6</sup> Capital FM, 11 Apr 2017.

<sup>7</sup> Africa Confidential, 10 Apr 2017.

<sup>8</sup> Source, private sector executive, Kenya

2007 violence did not damage his political credibility, although he was in alliance with William Ruto at the time.<sup>9</sup> Critics of the choice of Odinga, however, argued his experience is actually a weakness.<sup>10</sup>

*“There is voter fatigue on a Raila Odinga candidature after failure to win the 2013, 2007 elections and also on account of Raila Odinga’s age [72]. Doubts on whether Odinga will be able to fire up the opposition strongholds linger... There are signs of dissatisfaction within member parties. Odinga has a Herculean task ahead of him if he is to defeat the Jubilee Party, but on the flip side he still appeals to smaller ethnic communities especially from the coastal region and nomadic tribes.”<sup>11</sup>*

Concern within the NASA persists that Odinga’s candidacy will mobilise Kenyatta voters, especially in **Central Province** where Odinga is especially unpopular.<sup>12</sup> Senior members of the WDM, which draws its support mainly from the **Kamba** ethnic group, are especially unhappy.<sup>13</sup> Senior party official **Francis Nyenze** claims that Odinga’s candidacy violates a 2013 agreement between the WDM and Odinga’s opposition **Orange Democratic Movement (ODM)**.<sup>14</sup> Under the agreement, Musyoka agreed to be Odinga’s running mate for the 2013 general election on the condition that they then swap places on the ticket for 2017:<sup>15</sup>

*“Nyenze says that ODM and Odinga and other party officials have reneged on this deal by not endorsing Musyoka. Musyoka has however moved fast to quell an outright party rebellion.”<sup>16</sup>*

NASA had faced a delicate balancing act to offer a sufficiently attractive proposal to the leaders of its four constituent parties to mitigate defections to the ruling Jubilee Party. There were particular concerns about any arrangement that appeared to marginalise ANC leader Mudavadi, the architect of the NASA. Mudavadi contested the 2013 election after rejecting offers to join either Odinga or Kenyatta. The power sharing deal is designed to appease the other leaders of NASA’s constituent parties who had also sought to secure the presidential candidacy. Under the deal, should Odinga win the election, he will serve a single five-year term as president with Musyoka as his deputy. Mudavadi will serve as premier cabinet secretary in charge of government coordination if Odinga wins the election.<sup>17</sup> This is a newly created position, but appears to have the equivalent powers and functions of a prime minister.<sup>18</sup> Mudavadi and **FORD-Kenya** leader **Moses Wetangula** will serve as deputy-premier secretaries.<sup>19</sup>

The power sharing deal is a legally binding contract rather than an informal arrangement. This is notable as NASA wants to avoid the uncertainty that surrounds the apparent deal between Kenyatta and Ruto. Under this rumoured deal, Kenyatta (a **Kikuyu**) will stand down in 2022 and back Ruto (a **Kalenjin**) as his successor.<sup>20</sup> There is increased Kalenjin suspicion that the Kikuyu may backtrack on their support for Ruto in 2022.<sup>21</sup> However, there are few guarantees about the NASA power sharing deal. The proposed structure is unconstitutional, meaning a future Odinga administration would need to amend the constitution through a referendum. There is no guarantee that **Kenyans** would vote in favour of amending the constitution. The **Luhya** ethnic group, of which Mudavadi and Wetangula are members, have questioned whether Odinga will deliver on the deal.<sup>22</sup>

<sup>9</sup> Source, private sector executive, Kenya

<sup>10</sup> Source, journalist, Nairobi

<sup>11</sup> Source, journalist, Nairobi

<sup>12</sup> Africa Confidential, 10 Apr 2017.

<sup>13</sup> Source, journalist, Nairobi

<sup>14</sup> Source, journalist, Nairobi

<sup>15</sup> Source, journalist, Nairobi

<sup>16</sup> Source, journalist, Nairobi

<sup>17</sup> Standard, 27 Apr 2017.

<sup>18</sup> Standard, 27 Apr 2017.

<sup>19</sup> Standard, 27 Apr 2017.

<sup>20</sup> Source, journalist, Nairobi

<sup>21</sup> Africa Confidential, 8 Jul 2016.

<sup>22</sup> Source, journalist, Nairobi

A broader opposition alliance will improve Odinga's electoral prospects. The election is likely to be close, increasing the risk of electoral violence. Having only two candidates rather than the three that contested the 2013 election means that one candidate will win the 50% of the vote required to win the election outright and avoid a second round.

### Party primaries turn chaotic

The confirmation that Odinga and Kenyatta will contest the election comes after party primaries to select general election candidates ran between 13 and 26 April.<sup>23</sup> The Jubilee Party's primaries were especially shambolic raising concerns about the conduct of the August election itself. The Jubilee Party started primaries in 21 counties across Kenya on 21 April, and subsequently cancelled them due to logistical challenges and allegations of electoral fraud.<sup>24</sup> The Jubilee Party cancelled primaries entirely in **Narok, Elgeyo-Marakwet, Kericho, Kajiado, Kiambu, Laikipia, Meru and West Pokot, Muranga, Kirinyaga, Nyeri and Nyandarua Uasin Gishu, Nandi, Embu, Trans-Nzoia, Bomet, Nakuru and Baringo Counties**.<sup>25</sup> In the majority of cases where voting was cancelled, voting materials failed to reach polling stations or failed to include the names of all candidates.<sup>26</sup> Local media published photographs of voters burning ballot papers in protest.<sup>27</sup> In Kajiado County, for instance, local leaders stopped a lorry carrying ballot papers, and demanded payment to release it.<sup>28</sup> The Jubilee Party national election board has also reportedly started investigations into alleged electoral fraud.<sup>29</sup>

ODM governor primaries turned violent, raising concerns about the risk of violence either side of the election itself. There were especially notable incidents in **Busia and Migori** counties. In Busia, a crowd of youth attacked the vehicle of deputy governor **Kizito Wangalwa** on 13 April, causing damage to the car and injuring the driver.<sup>30</sup> Wangalwa was not in the vehicle at the time of the incident.<sup>31</sup> Incumbent governor **Sospeter Ojaamong** and **Funyula** member of parliament (MP) **Paul Otuoma** are standing to become the ODM candidate.<sup>32</sup> Ojaamong won the governor primary, but the ODM ordered a rerun on 25 April alleging widespread electoral fraud.<sup>33</sup> An ODM disciplinary committee cleared Ojaamong and Otuoma of involvement in the violence.<sup>34</sup> In a separate incident in Migori on 16 April, there were clashes between supporters of incumbent governor **Okoth Obado** and his opponent **Ochilo Ayacko**.<sup>35</sup> There were reports of unidentified individuals firing guns in **Nyatike Constituency**.<sup>36</sup> An ODM disciplinary committee fined Obado 2m Kenya shillings (KSh) (\$19,342) after finding him guilty of involvement in the violence.<sup>37</sup>

The chaotic ODM primaries may undermine Odinga's presidential candidacy (see above).

*"Raila Odinga has to excite his strongholds from his Luo ethnic community. There is dissatisfaction following ODM's chaotic party primaries with accusations that some of the contestants at the just concluded nominations were edged out in favour of candidates who are relatives of the Odinga's or his cronies. This perceived favouritism was costly in the 2013 elections as it has been cited as one of the reasons for the poor voter turnout in these regions."*<sup>38</sup>

<sup>23</sup> Standard, 21 Apr 2017.

<sup>24</sup> Standard, 21 Apr 2017.

<sup>25</sup> Standard, 21 Apr 2017.

<sup>26</sup> Standard, 21 Apr 2017.

<sup>27</sup> Reuters, 23 Apr 2017.

<sup>28</sup> Standard, 21 Apr 2017.

<sup>29</sup> Standard, 21 Apr 2017.

<sup>30</sup> Daily Nation, 13 Apr 2017.

<sup>31</sup> Daily Nation, 13 Apr 2017.

<sup>32</sup> Daily Nation, 13 Apr 2017.

<sup>33</sup> Daily Nation, 17 Apr 2017.

<sup>34</sup> Daily Nation, 13 Apr 2017.

<sup>35</sup> Standard, 17 Apr 2017.

<sup>36</sup> Standard, 17 Apr 2017.

<sup>37</sup> Standard, 17 Apr 2017.

<sup>38</sup> Source, journalist, Nairobi

Showing immunity to political pressure, the **Independent Electoral and Boundaries Commission (IEBC)** rejected petitions from both the ruling Jubilee Party and the opposition NASA to extend the 26 April deadline to complete its primaries beyond 26 April.<sup>39</sup> A **Malindi High Court** ruling, however, extended the deadline to 1 May in a case that a local non-governmental organisation (NGO) brought.<sup>40</sup> According to the election timetable, the parties have until 10 May to resolve any disputes from the primaries, before the IEBC publishes a final list of candidates on 10 June, and campaigning begins on 24 June.<sup>41</sup>

The violence of the primaries is not necessarily indicative of the risk of violence during the general election. In Kenya, ethnicity often determines which party wins a particular constituency. This makes securing that party nomination in the first place more significant than if a number of parties had a chance of winning the actual election. There is a risk of sporadic localised violence until the IEBC confirms the final candidates list. The IEBC's refusal to extend the primaries' deadline bodes well for its management of the general election.

### World Bank and IMF publish Kenya data

The **World Bank** and the **International Monetary Fund (IMF)** both offered positive medium-term outlooks for Kenya in April. Both the World Bank and the IMF noted the low growth environment. The World Bank cut Kenya's gross domestic product (GDP) growth forecast for 2017 from 6% to 5.5% on 12 April 2017.<sup>42</sup> The World Bank cited drought, low private sector credit growth, and increased oil prices for its revision.<sup>43</sup> The World Bank noted that drought has resulted in 2.7 million people requiring food aid, while private sector credit growth decreased to 4% in February from 17% at the end of 2015.<sup>44</sup> As part of its second review under the March 2016 stand-by arrangement and stand-by credit facility, the IMF noted that growth reached 5.9% in the first three quarters of 2016, compared to 5.6% in 2015.<sup>45</sup> This compares to **Kenya National Bureau of Statistics (KNBS)** data published on 19 April showing that growth reached 5.8% in 2016.<sup>46</sup> Growth was largely on the back of activity in the services sector.<sup>47</sup> Disaggregated by service subsectors, hotels and restaurants – a proxy indicator for tourism – grew 13.3%, communications 9.7%, real estate 8.8%, transport 8.4% and financial services 6.9%.<sup>48</sup> Retail only grew 3.8%, largely due to a slowdown in credit availability.<sup>49</sup> The agriculture sector only grew 4% due to the impact of the drought.<sup>50</sup> The manufacturing sector grew only 3.5%, due in part to increased competition from imports.<sup>51</sup> The industry sector grew 5.8%.<sup>52</sup> The KNBS also revised past growth figures upwards, to from 5.7% to 5.9% in 2013, from 5.3% to 5.4% in 2014 and from 5.6% to 5.7% in 2015.<sup>53</sup>

The IMF and World Bank project a more positive medium-term growth outlook. The World Bank expects growth to increase to 5.8% in 2018 and 6.1% in 2019.<sup>54</sup> According to the World Bank, this will be on the back of improvements in rainfall, the global economy, tourism activity, and private sector credit growth.<sup>55</sup> The IMF also noted foundations for renewed growth including high public investment

<sup>39</sup> Nation, 24 Apr 2017.

<sup>40</sup> Nation, 24 Apr 2017.

<sup>41</sup> Nation, 24 Apr 2017.

<sup>42</sup> Reuters, 12 Apr 2017.

<sup>43</sup> Reuters, 12 Apr 2017.

<sup>44</sup> Reuters, 12 Apr 2017.

<sup>45</sup> [www.imf.org](http://www.imf.org)

<sup>46</sup> [www.knbs.or.ke](http://www.knbs.or.ke)

<sup>47</sup> [www.knbs.or.ke](http://www.knbs.or.ke)

<sup>48</sup> [www.knbs.or.ke](http://www.knbs.or.ke)

<sup>49</sup> [www.knbs.or.ke](http://www.knbs.or.ke)

<sup>50</sup> [www.knbs.or.ke](http://www.knbs.or.ke)

<sup>51</sup> [www.knbs.or.ke](http://www.knbs.or.ke)

<sup>52</sup> [www.knbs.or.ke](http://www.knbs.or.ke)

<sup>53</sup> [www.knbs.or.ke](http://www.knbs.or.ke)

<sup>54</sup> Reuters, 12 Apr 2017.

<sup>55</sup> Reuters, 12 Apr 2017.

spending, favourable weather and increased tourist numbers.<sup>56</sup> The World Bank also advised the government it could accelerate growth through improvements to the construction sector, through offering innovative housing financing including the creation of mortgage refinance companies and the provision of housing finance guarantees.<sup>57</sup> The IMF described the banking system as stable and welcomed the ongoing **Central Bank of Kenya (CBK)** reforms to strengthen the financial system.<sup>58</sup>

According to the World Bank, the main risks to growth are the weather and the potential economic slowdown of Kenya's major trading partners.<sup>59</sup> Both the World Bank and the IMF called on the government to review the **Banking Act (Amendment) 2015** and its cap on commercial bank deposit and lending rates.<sup>60</sup> The World Bank called on the government to remain committed to fiscal consolidation.<sup>61</sup> The IMF called on the government to work towards achieving its fiscal deficit target, including by encouraging a substantial increase in foreign-financed public investment.<sup>62</sup>

The IMF warned that inflation had reached 10.3% in March.<sup>63</sup> The KNBS published separate data on 28 April showing that consumer price inflation reached 11.5% year-on-year in April, a five-year high.<sup>64</sup> Inflation is increasing on the back of higher food prices, which has the heaviest weighting (36%) in the consumer price index. Food prices increased 21% year-on-year and 3.6% month-on-month in April.<sup>65</sup> Both the IMF and the KNBS cited the impact of ongoing food shortages.<sup>66</sup> An erratic end to the 2016 main wet season (March to May) hampered the main harvest in the second half of last year, while the failure of the short-rainy season in the fourth quarter of last year and the late arrival of this year's main rains have exacerbated the food shortages. However, the IMF projected that inflation will decrease as agriculture production returns to normal levels.<sup>67</sup>

According to IMF data, the external current account deficit decreased from 6.8% of GDP in 2015 to 5.5%, on the back of low oil prices and increased tea and horticulture exports.<sup>68</sup> The IMF described the exchange rate as stable, and noted that foreign exchange reserves stand at \$7.8 billion, equivalent of 5.1 months of import cover.<sup>69</sup>

The World Bank and IMF's positive medium-term outlook indicates only limited concern about electoral uncertainty or violence. Electoral uncertainty may negatively impact portfolio investments, but foreign direct investors will have priced in political risk to their investments. This was the third consecutive month that inflation exceeded the CBK's 5-7.5% target range, increasing the likelihood it will raise its benchmark interest rate during its next monetary policy committee meeting in May. The government will hope the CBK does not hike its rates pre-election as high food prices are putting pressure on household income. The likelihood is the CBK will only act after the election.

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<sup>56</sup> [www.imf.org](http://www.imf.org)

<sup>57</sup> Reuters, 12 Apr 2017.

<sup>58</sup> [www.imf.org](http://www.imf.org)

<sup>59</sup> Reuters, 12 Apr 2017.

<sup>60</sup> Multiple sources: Reuters, 12 Apr 2017; [www.imf.org](http://www.imf.org).

<sup>61</sup> Reuters, 12 Apr 2017.

<sup>62</sup> [www.imf.org](http://www.imf.org)

<sup>63</sup> [www.imf.org](http://www.imf.org)

<sup>64</sup> [www.knbs.or.ke](http://www.knbs.or.ke)

<sup>65</sup> [www.knbs.or.ke](http://www.knbs.or.ke)

<sup>66</sup> [www.imf.org](http://www.imf.org)

<sup>67</sup> [www.imf.org](http://www.imf.org)

<sup>68</sup> [www.imf.org](http://www.imf.org)

<sup>69</sup> [www.imf.org](http://www.imf.org)

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