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President Uhuru Kenyatta (2013-present) declares a “relentless war on graft” as corruption allegations hit several state-owned companies and government agencies including the National Youth Service, Kenya Forestry Service (KFS), Kenya Power Plc, the National Cereals and Produce Board, the Kenya Pipeline Co., and the Kenya Electricity Transmission Company (Ketraco). Trade principal secretary Chris Kiptoo rules out the possibility of Kenya signing a free trade agreement with China as part of the East African Community (EAC). Kenya moves closer to becoming an oil-exporting nation as oil is trucked from Turkana County to Mombasa Port.

Corruption allegations rock state-owned companies and government agencies

A spate of allegations of financial irregularities in Kenya's state-owned and government agencies has increased calls for President **Uhuru Kenyatta** (2013-present) to tackle corruption more aggressively.¹ Kenya's main newspapers, including **The Daily Nation**, **People Daily**, **The Standard** and **The Star**, indicated that multiple government agencies were investigating \$90m worth of suspicious payments made to contractors by the government-run volunteer training programme, the **National Youth Service (NYS)**, in 2016.² Detectives from the **Ethics and Anti-Corruption Commission (EACC)**, the **Directorate of Criminal Investigations (DCI)** and the **Central Bank of Kenya** were investigating payments similar to those made within the NYS during Kenyatta's first term, which caused rifts in the **Jubilee Coalition** (now **Jubilee Party**) at the time.³ In the first NYS scandal, the EACC estimated that the NYS lost \$8m - \$14m.⁴ The latest alleged scandal, if true, would dwarf its predecessor.

Director of public prosecutions (DPP) **Noordin Haji** announced on 28 May that various agencies had handed files to his office and that prosecutions would begin immediately.⁵ Haji said the DPP would charge 40 civil servants and 14 businesspeople over the alleged NYS scandal and freeze their bank accounts.⁶ The DPP would also expand investigations to cover banks and other financial institutions that may have been involved in the scandal.⁷ Kenyan police arrested both NYS director general **Richard Ndubai** and Principal Secretary for Public Service and Youth **Lillian Mbogo Omollo** as suspected central figures in the alleged graft within a few days of the DPP's announcement.⁸ Further arrests included a woman and her three siblings, suspected of claiming fictitious supplies worth \$2.4m.⁹

The crux of the alleged NYS scandal was similar to that of its predecessor. The NYS paid companies millions of shillings for supplying goods to the NYS at exaggerated prices or made payments for goods and services that were not provided. The **People Daily** reported that the NYS paid \$10,000 for tyres

¹ Press Release, The Institute of Certified Public Accountants of Kenya.

² Daily Nation, 13 May 2018.

³ Source, journalist, Nairobi

⁴ The Standard, 11 Sept 2015.

⁵ Deutsche Welle, 28 May 2018.

⁶ Office of the Director of Public Prosecutions press conference, Nairobi, 28 May 2018.

⁷ Office of the Director of Public Prosecutions press conference, Nairobi, 28 May 2018.

⁸ Daily Nation, 28 May 2018.

⁹ Source, journalist, Nairobi

that were worth between \$30 to \$100.¹⁰ Furthermore, companies that the **Auditor General** had flagged for fraudulent activities in other government agencies in previous years were found to have continued to engage in fraudulent activities in interactions with the NYS. One such case involved a \$14m payment to a company called **Firstling Supplies Limited**, a company with no website or public profile.¹¹ The Auditor General cited the supplier firm in 2012 as one of the companies to which the transport ministry had paid \$310,000 for delivering equipment, but there was no evidence that the firms ever delivered the equipment.¹²

A series of other irregularities has further enraged the Kenyan public. These include the loss of \$20m by the **Kenya Forestry Service (KFS)**. The Daily Nation alleged on 28 May that rogue officials – the “*Timber Mafia*” – were involved in inflating the price of seedlings and coordinating the illegal logging of trees in Kenya’s national forests.¹³ The DPP has also ordered an investigation to determine whether graft has taken place at state-owned **Kenya Power Plc**, which is alleged to have issued irregular contracts.¹⁴ In addition, the **National Cereals and Produce Board (NCPB)**, the government agency that stocks national reserves of maize and other cereals, is alleged to have bought maize worth up to \$20m from cartels that were not bona fide farmers, contravening their institutional mandate.¹⁵ The NCPB is required to buy first from local farmers, but some select suppliers sourced maize from neighbouring **Uganda** and secretly supplied the NCPB, depriving Kenyan farmers of a market for their maize, as NCPB silos were filled with Ugandan grain in 2017.¹⁶

ARC’s source in Kenya said that journalists “*cannot keep pace*” with the revelations.¹⁷ Another recent corruption scandal involves the **Kenya Pipeline Co.**, a state-owned company responsible for storing and transporting petroleum. The Daily Nation reported that as much as \$940m of taxpayers’ money has gone missing from the company.¹⁸ Kenyatta has suspended the general manager for finance and two directors.¹⁹ The **Kenya Electricity Transmission Company (Ketraco)** became the latest state-owned company accused of graft on 10 June, with alleged fictitious claims and illegal price inflations causing a loss of KSh6.3 billion (\$62.3m).²⁰

Amid strong public pressure to tackle corruption, President Kenyatta declared a “*relentless war on graft*” during his **Madaraka Day Speech** on 1 June.²¹ Kenyatta suspended more than 1,000 senior civil servants responsible for procurement and ordered lifestyle audits for all procurement and accounting staff.²² He also called for lie-detector tests for all procurement officials over the next month in a bid to clean up all government departments.²³

Kenyatta’s newfound suspicion of civil servants appears to have some basis. ARC’s source reports that some of those suspected of corruption have been found to own a fleet of cars, high-end salons, and other assets:

“The Standard reported that one senior government official is allegedly developing two malls in Nairobi. This revelation comes at a time when the banking regulator decries that malls are contributing to a rise in non-performing loans due to oversaturation. This implies that the said

¹⁰ People Daily, 24 May 2018.

¹¹ Daily Nation, 15 May 2018.

¹² Daily Nation, 16 May 2018.

¹³ Daily Nation, 28 May 2018.

¹⁴ Daily Nation, 28 May 2018.

¹⁵ Source, journalist, Nairobi

¹⁶ Public address, Richard Lesiyampe, Agriculture Principal Secretary

¹⁷ Source, journalist, Nairobi

¹⁸ Bloomberg, 5 June 2018.

¹⁹ Bloomberg, 5 June 2018.

²⁰ The Standard, 10 June 2018.

²¹ The Standard, 5 June 2018.

²² The Standard, 5 June 2018.

²³ Global Construction Review, 4 Jun 2018.

malls are being financed by cash, which begs the question where a civil servant would amass such wealth.”²⁴

Kenyatta vowed to tackle corruption when he came to power in 2013. However, to date there have been no high-profile convictions, casting doubt on his approach to getting rid of graft.²⁵ Cynics argue that the current crackdown on corruption is an attempt to score political points rather than an honest bid to ensure that taxpayers’ money is put to good use. Allies of deputy president **William Ruto** told the Daily Nation newspaper that they are subject to an attack on their interests as the targeted companies and government agencies are disproportionately run by Ruto’s allies, from the **Rift Valley Province** or pastoral communities.²⁶ Ruto’s camp alleges that President Kenyatta’s new alliance with his long-time rival, **Raila Odinga**, is the reason they are now out of favour with the government.²⁷ ARC’s source said that this is a plausible theory:

“Most stories on corruption, save the NYS, seem to touch on ministries where Ruto’s confidantes are placed.”²⁸

Despite the potential targeting of Ruto and his allies, Kenyatta’s pledges to crack down on corruption in the public sector appear to reach across all ministries and state-owned companies. Investors can therefore be hopeful that Kenya’s public sector will operate in a less corrupt manner in the future.

Trade secretary rules out Kenya signing China-EAC free trade deal

Trade principal secretary **Chris Kiptoo** stated on 14 May that Kenya would not sign a free trade agreement between **China** and the **East African Community (EAC)**, scuppering the agreement that **Beijing** has worked on since 2016.²⁹ Kiptoo said Kenya’s refusal to sign the agreement is to protect Kenya’s manufacturing industry from Chinese competitors which could provide cheap goods to the Kenyan market.³⁰ China is the main source of Kenya’s imports: Kenya imported KSh337.4 billion (\$3.37 billion) worth of goods from China in 2016, but exported only KSh10 billion (\$99.76 million), indicating a KSh317.4 billion (\$3.2 billion) trade deficit with China for 2016.³¹

Many Kenyans are wary of China’s growing influence in the country. China controls 12.1% of Kenya’s national debt.³² This figure will rise significantly due to the extension of the Chinese-built **Standard Gauge Railway (SGR)** between **Nairobi** and **Naivasha** that has led Kenyans to question their economic closeness to China (see *ARC Briefing Kenya May 2018*).³³ Vandalisation on 1 May of a commercial billboard written in **Mandarin** on a main road in Nairobi sparked further debate about China’s growing role in Kenya.³⁴ Some called for the advertisement to offer an English translation to make it accessible to Kenyans, while others vandalised the billboard to express their distaste (see *ARC Briefing Kenya May 2018*).³⁵

The refusal to sign China’s free trade agreement represents a deceleration of the “*ever-deepening economic relationship*” between Kenya and China. Kiptoo’s announcement is likely to reassure local manufacturers, but may dishearten those in sectors that export goods to China.

²⁴ Source, journalist, Nairobi

²⁵ Global Construction Review, 4 Jun 2018.

²⁶ The Daily Nation, 10 Jun 2018.

²⁷ The Daily Nation, 10 Jun 2018.

²⁸ Source, journalist, Nairobi

²⁹ Business Daily Africa, 15 May 2018.

³⁰ The East African, 15 May 2018.

³¹ The East African, 15 May 2018.

³² The Standard, 3 May 2018.

³³ The Standard, 3 May 2018.

³⁴ Xinhuanet, 2 May 2018.

³⁵ Xinhuanet, 2 May 2018.

Kenya's first oil trucked from Turkana County to Mombasa Port

Kenya came closer to becoming an oil-exporting nation on 3 June, with barrels sent from the **Ngamia** oil fields in **Turkana County** in the country's north west in an "**Early Oil Pilot Scheme**" (**EOP**).³⁶ The oil was transported from its source via truck to the port of **Mombasa**, a journey of over 1,000km.³⁷ Casting doubt on the viability of the scheme, local press reported that poor road quality and a broken bridge caused by heavy rains threatened the viability of the journey.³⁸ However, a temporary Bailey bridge was constructed which enabled the trucks carrying the oil to pass.³⁹

United Kingdom-based **Tullow Oil** and its partner, **Canada**-based **Africa Oil**, discovered the oil in 2012. **France**-based oil producer **Total** has since taken a 25% stake in the oil fields.⁴⁰ Tullow Oil has around 70,000 barrels stored in tanks in the fields and plans to truck at least 2,000 barrels a day from the oil fields to Mombasa.⁴¹ However, to provide more reliable and efficient transport of the oil on a larger scale, construction of an oil pipeline between the source in Turkana County and **Lamu Port**, in **Lamu County**, is due to begin in June 2019.⁴² Stakeholders in the project on 29 May appointed **Australia**-based engineering firm **Worley Parsons** to design the pipeline.⁴³ The proposed pipeline should be fully constructed by 2021, when Kenya plans to begin commercial oil production.⁴⁴

The start of the Early Oil Pilot Scheme represents the end of an impasse regarding profit sharing between national and county governments in Kenya.⁴⁵ Parliament passed a law on 12 June that sets out how revenue from future oil production will be shared.⁴⁶ The bill stipulates that the national government will receive 75% of income from crude oil production, county administrations 20%, and communities in locations where the oil is sourced will receive 5%.⁴⁷ The **Senate** has to approve the petroleum bill before President Uhuru Kenyatta signs his assent.⁴⁸

There is optimism surrounding the Early Oil Pilot Scheme, particularly as the government has taken steps to ensure that Kenya does not fall victim to the "*resource curse*" – a fall in a country's economic fortunes that correlates with its export of natural resources. The robust debate between local and national government regarding profit sharing demonstrates that all stakeholders in the project have a voice and reduces the likelihood of national government representatives unfairly distributing profits.⁴⁹

Planner

30 Jul 2018 (**Kenya**) *Central Bank of Kenya*. **Central Bank of Kenya** monetary policy meeting;
 28 Oct 2018 (**Kenya**) *Daily Nation*. Daily direct flights to **New York (United States)** expected to begin.
 Aug 2019 (**Kenya**) *The Star*. National Census planned;
 2022 (**Kenya**) *The Nation*. General elections to be held;

³⁶ Daily Nation, 4 Jun 2018.

³⁷ Al Jazeera, 3 Jun 2018.

³⁸ Standard Media, 2 Jun 2018.

³⁹ Daily Nation, 2 Jun 2018.

⁴⁰ Creamer's Engineering News, 29 May 2018.

⁴¹ Daily Nation, 4 Jun 2018.

⁴² Standard Media, 5 Jun 2018.

⁴³ Creamer's Engineering News, 29 May 2018.

⁴⁴ Standard Media, 5 Jun 2018.

⁴⁵ Creamer's Engineering News, 29 May 2018.

⁴⁶ WorldOil, 12 Jun 2018.

⁴⁷ WorldOil, 12 Jun 2018.

⁴⁸ WorldOil, 12 Jun 2018.

⁴⁹ The Standard, 12 Jun 2018.

Chronology

11 Jun 2018 **Nairobi (Kenya)** *Eyewitness News*. **India**-based telecommunications company **Bharti Airtel** abandons plans to merge with **Telkom Kenya** to take on sector leader **Safaricom**;

10 Jun 2018 **(Kenya)** *The Standard*. The **National Public Prosecutor** accuses **Kenya Electricity Transmission Company (Ketraco)** of graft, including fictitious claims and illegal price inflations causing an alleged scam worth KSh6.3 billion (\$62.3m);

5 Jun 2018 **(Kenya)** *Bloomberg*. **Kenya Pipeline Co.** suspends its directors amid alleged \$940m corruption scandal;

5 Jun 2018 **Nairobi (Kenya)** *ESI Africa*. **Kenergy Renewables** signs a 20-year power supply contract with state-run distributor **Kenya Power** to sell 40 megawatts of solar power at \$0.08 per kilowatt hour;

3 Jun 2018 **(Kenya)** *Al Jazeera*. **Kenya** launches a pilot scheme to export crude oil, delivering oil via truck from **Turkana** to the coast;

31 May 2018 **Nairobi (Kenya)** *Al Jazeera*. **Kenyans** protest over \$90m missing in a corruption scandal at the **National Youth Service**;

29 May 2018 **Turkana County (Kenya)** *The Citizen*. **United Kingdom**-based oil explorer **Tullow Oil** awards an engineering design contract to **Australia**-based **Worley Parsons** for oil production in its northern Kenyan blocks;

28 May 2018 **Nairobi (Kenya)** *Al Jazeera*. Authorities charge 54 people, including civil servants, as part of a corruption probe into \$78m of suspected theft at the **National Youth Service**;

20 May 2018 **Nairobi (Kenya)** *The Star*. **Newton Terer**, chief executive of the **National Cereals and Produce Board**, resigns amid an alleged corruption scandal;

20 May 2018 **(Kenya)** *EWN*. Investigators summon more than 40 people for questioning after the **National Youth Service's** inability to account for KSh10 billion (\$100m);

19 May 2018 **Turkana County (Kenya)** *Business Daily Africa*. President **Uhuru Kenyatta** reaches agreement on sharing of oil revenue from **Turkana** oil fields, with 75% for national government, 20% for country government and 5% for the local community;

15 May 2018 **Nairobi (Kenya)** *Business Daily Africa*. Trade principal secretary **Chris Kiptoo** states that Kenya will not sign a free trade agreement between **China** and the **East African Community**;

11 May 2018 **Nairobi (Kenya)** *Business Daily*. The **Kenya Deposit Insurance Corporation (KDIC)** forces Kenya-based **Imperial Bank Limited** to close more than 78 bank accounts, alleging that large depositors may have colluded with the bank's directors;

11 May 2018 **Nairobi (Kenya)** *Business Daily*. The **European Union (EU)** grants Kenya a KSh54 billion (\$537.4m) grant to support its five-year development agenda;

11 May 2018 **Nairobi (Kenya)** *Daily Nation*. **Noordin Haji, Director of Public Prosecutions**, orders a probe regarding culpability for the **Patel Dam** burst which killed at least 44 people;

10 May 2018 **Nairobi (Kenya)** *IOL*. The **Committee to Protect Journalists (CPJ)** urges President **Uhuru Kenyatta** not to sign the country's new cybercrimes bill into law for fear of unfair targeting of journalists and bloggers;

9 May 2018 **Migori (Kenya)** *Daily Nation*. A collapse at a gold mine traps six mine workers;

9 May 2018 **Nairobi (Kenya)** *Daily Nation*. Telecoms giant **Safaricom** announces annual profit of KSh 55.3 billion (\$549.4m) for the year ending March 2018, up 14.3% on the previous year's after-tax earnings;

8 May 2018 **Lamu (Kenya)** *Business Daily*. Kenya and **Ethiopia** agree for Ethiopia to develop

logistics capabilities at **Lamu** port;

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