

AFRICA RISK CONSULTING

Kenya Monthly Briefing February 2021

Kenya Summary 11 February 2021

President Uhuru Kenyatta (2013-present) focuses on managing the continuing economic fallout from Covid-19 as Kenya passes 100,000 confirmed cases. The Central Bank of Kenya's (CBK) Monetary Policy Committee (MPC) decides to keep the bank's rate at 7% for the foreseeable future as it continues to monitor the impact of borrowing and the roll out of the Covid-19 vaccine. Kenya has improved its score and ranking in Germany-based non-governmental organisation Transparency International's Corruption Perceptions Index (CPI), now ranking 124th out of the 180 countries surveyed in the 2020 CPI.

Kenya steers a course through Covid-19 turbulence ...

As confirmed cases of **Covid-19** surpassed 100,000 in **Kenya** on 25 January, President **Uhuru Kenyatta** (2013-present) continues to try to balance health care concerns with stabilising the country's economy.¹ The sobering announcement of the Covid milestone came just a few days after it was revealed that two cases of the **South African** variant of the virus had been identified in Kenya.² In order to help reduce the number of cases being imported into Kenya, health cabinet secretary **Mutahi Kagwe** announced on 12 January that travellers entering and leaving the country would now need to provide digitally verified proof of their negative Covid-19 test results, no doubt spurred by anecdotal evidence of fake certificates circulating throughout the region.³ However, there is some cause for hope as the health ministry announced on 29 January that 1.25 million of Kenya's roughly 54 million inhabitants would be vaccinated against the virus between February and June, commencing the long and likely complex vaccination process that will take a number of years to roll out to the point of the country achieving herd immunity.⁴

While the health crisis continues to rage, the government has spent the last month attempting to stabilise **East Africa's** most mature economy. One of the mechanisms being deployed is debt relief, with **Central Bank of Kenya (CBK)** governor **Patrick Njoroge** announcing on 11 January that the country was to receive a six-month reprieve from repaying debts owed to the **G20** as part of its **Debt Service Suspension Initiative**.⁵ Just a couple of weeks later, on 29 January, Njoroge indicated that the country might apply for additional debt relief in the coming months.⁶ It is also reported that the treasury is in talks with the **Chinese** embassy in **Nairobi** about the potential for a delay in repaying debts owed to Chinese state-owned creditors.⁷ A request for debt reprieve from China is timely, as in January the Chinese wrote off \$28m of debt for the **Democratic Republic of the Congo (DRC)**⁸ and provided three years of debt relief to **Angola**.⁹

These measures come as the country's foreign exchange reserves are at a 34-month low, currently at \$7.722 billion,¹⁰ local banks are reporting that borrowers have defaulted on KSh73.05 billion (\$666m)

¹ The Nation, 25 Jan 2021

² The East African, 21 Jan 2021

³ The East African, 12 Jan 2021

⁴ The Nation, 29 Jan 2021

⁵ The Nation, 11 Jan 2021

⁶ The East African, 29 Jan 2021

⁷ Business Daily, 19 Jan 2021

⁸ South China Morning Post, 7 Jan 2021

⁹ South China Morning Post, 18 Jan 2021

¹⁰ Business Daily, 18 Jan 2021

worth of loans in the ten months leading up to December 2020,¹¹ and investors on the **Nairobi Stock Exchange** have lost a total of KSh203 billion (\$1.86 billion) in the past year.¹² In a bid to attract funds from Kenyans living abroad, parliament is considering amendments to the **Kenya Citizenship and Immigration (Amendment) Bill, 2020** in order to provide incentives for those in the diaspora to invest in Kenya.¹³

In addition to debt reprieve, the country is clamping down to ensure that public money is properly accounted for, with parliament debating the **Public Debt Management Authority Bill (2020)** that, if passed, would establish an independent authority to scrutinise government borrowing.¹⁴ The **Kenya Revenue Authority** is also beefing up its efforts to clamp down on tax evaders, announcing on 13 January that it was in the process of hiring an additional 2,000 staff to ensure that the country's high net worth individuals were paying all their taxes.¹⁵

Monetary Policy Committee keeps central bank rates stable

The **Central Bank of Kenya (CBK) Monetary Policy Committee (MPC)** decided at its bi-monthly meeting on 27 January to once again keep the central bank's rate at 7%, continuing the stability that has been in place since April 2020.¹⁶ As part of its decision to keep the rate stable, the MPC noted:

*"The package of policy measures implemented since March 2020 were having the intended effect on the economy, and are being augmented by implementation of the announced fiscal measures in the FY2020/21 Budget. The MPC concluded that the current accommodative monetary policy stance remains appropriate, and therefore decided to retain the Central Bank Rate (CBR) at 7.00 percent."*¹⁷

Leading up to the bi-monthly MPC meetings, the CBK undertakes a **Market Perceptions Survey** of private sector respondents. The January survey revealed optimism in the country's economic trajectory had further increased with the re-opening of schools. The survey noted that 93% of banks and 74% of non-banking entities were optimistic about 2021, with more respondents anticipating an increase in economic activity in January and February than had expected such an increase in November and December.¹⁸ There is also an expectation that employment rates will increase and private sector credit will increase throughout 2021. Overall there continues to be a more positive outlook for 2021 among respondents of the survey, however it remains to be seen how the lifting of some Covid-19 measures, such as the re-opening of schools, will impact the country's healthcare system.

In the press statement following the MPC meeting, the CBK noted that although the global economy had contracted by as much as 3.5% during the past 12 months, global growth for 2021 is anticipated to be 5.5%.¹⁹ Optimism around such growth figures is largely anchored around a successful vaccine rollout, however the efficacy of some of the vaccines and the emergence of additional variants of the virus will continue to pose challenges.²⁰ Nevertheless, the MPC remains committed that Kenya's economic growth will be buoyed by strong performances in key sectors including agriculture, resilient exports, manufacturing, services and the construction sectors.

In terms of monetary policy, the MPC noted that inflation is expected to remain broadly stable. The committee noted that the removal of some Covid-19 specific tax breaks and subsidies such as the

¹¹ Business Daily, 29 Jan 2021

¹² The East African, 26 Jan 2021

¹³ Business Daily, 25 Jan 2021

¹⁴ The East African, 11 Jan 2021

¹⁵ Business Daily, 13 Jan 2021

¹⁶ Central Bank of Kenya, Jan 2021

¹⁷ Central Bank of Kenya, Jan 2021

¹⁸ Central Bank of Kenya, Jan 2021

¹⁹ Central Bank of Kenya, Jan 2021

²⁰ Central Bank of Kenya, Jan 2021

signing of the **Tax Laws (Amendment) Bill 2020** by Kenyatta in January²¹ rolling back reductions in value-added tax (VAT) and corporate tax, are likely to have a small impact on overall inflation.²²

The MPC noted that foreign exchange reserves currently provide 4.72 months of import cover and that the rate of non-performing loans stood at 14.1% in December compared to 13.6% in October, representing a slight increase. Overall, however, the MPC noted that the economic indicators remained relatively stable and that the lending rate of 7% would in place.²³ The next meeting of the MPC is scheduled in March 2021, unless an urgent meeting is required before then.

Sources in Kenya express concern about the stability of these metrics in the mid-term, particularly taking into account a likely rise in case numbers due to the re-opening of schools and some economic activities. There is also a sense that optimism around these growth figures and trajectory may dampen amid recent set-backs in rolling out Covid-19 vaccinations in South Africa, where there appears to be increased resistance to Covid-19 vaccines in the new strain of the virus. A source in the finance sector predicted that the relatively stable outlook will become bleaker by the time the annual budget is announced in June.

Kenya continues to improve on corruption indices

Kenya has made a marked improvement in its ranking on **Germany**-based non-governmental organisation **Transparency International's** annual **Corruption Perceptions Index (CPI)**. The latest CPI, released on 28 January, places Kenya 124th out of 180 countries surveyed, 13 positions higher than in last year's CPI.²⁴ The survey ranks countries on perceived levels of corruption in the public sector. Countries are given a score out of 100, with 100 being very "clean" and 0 being very corrupt. On this metric, Kenya scored 31, slightly below the **sub-Saharan African** average of 32.²⁵ The sub-Saharan region's average score of 32 makes it the lowest ranking region in the world. Kenya's ranking of 124 is a significant improvement on its 2016 ranking of 145, showing the country has made sustained progress in combatting corruption.

TI 2020 CPI Rankings for Kenya					
	2020	2019	2018	2017	2016
Ranking	124/180	137/180	144/180	143/180	145/176
Score	31	28	27	28	26

The best performer in sub-Saharan-Africa was the **Seychelles** with a score of 66, with **Botswana** coming in second with a score of 60. **Sudan**, **Somalia** and **South Sudan** fared worst, with scores of 16, 12 and 12 respectively. Kenya ranked moderately compared to its regional neighbours with **Burundi** ranking 165th, **Tanzania** 94th and **Uganda** 142nd. **Rwanda** continued to be a strong performer in East Africa with a ranking of 49.²⁶

TI CPI Rankings 2020: Regional comparison (EAC)					
	Burundi	Kenya	Rwanda	Tanzania	Uganda
Ranking	165/180	124/180	49/180	94/180	142/180
Score	19	31	54	38	27

²¹ The Nation, 23 Dec 2020

²² Central Bank of Kenya, Jan 2021

²³ Central Bank of Kenya, Jan 2021

²⁴ Transparency International, 28 Jan 2021

²⁵ Transparency International, 28 Jan 2021

²⁶ Transparency International, 28 Jan 2021

Kenya has a long history of corruption scandals. Corruption has long been a feature of the operating environment that has discouraged many investors from considering Kenya as an investment jurisdiction, or prevented companies from investing further. Progressive positive momentum on world-renowned metrics such as the Corruption Perceptions Index will assist businesses when they are considering Kenya as a place to do business.

Planner

Mar 2021 **Nairobi (Kenya) Central Bank of Kenya** Monetary Policy Committee meeting (TBA);
2022 **(Kenya)** General elections to be held.

Chronology

8 Feb 2021 **Nairobi (Kenya) The Standard**. The ruling **Jubilee Party** expels six nominated senators over disciplinary infractions;

4 Feb 2021 **Nairobi (Kenya) The Standard**. Solicitor general **Kennedy Ogeto** announces that the **Kenya Medical Supplies Authority (Kemsa)** illegally procured KSh7.6 billion (\$69.3m) worth of goods during the **Covid-19** pandemic;

1 Feb 2021 **Nairobi (Kenya) Business Daily**. State-owned **China Jiangxi International Economic and Technical Cooperation** has commenced a KSh900m (\$8.2m) upgrade of the **Jomo Kenyatta International Airport**;

29 Jan 2021 **Nairobi (Kenya) The East African**. **United States**-headquartered company **Google** CEO **Sundar Pichai** has pledged \$10m to provide loans for tech startups and grants for **Kenyan** communities in need;

29 Jan 2021 **Nairobi (Kenya) The East African**. **Central Bank of Kenya (CBK)** governor **Patrick Njoroge** indicates that **Kenya** may receive additional debt relief from **G20** countries;

29 Jan 2021 **Nairobi (Kenya) Business Daily**. **Kenyan** banks have witnessed borrowers' default on KSh73.05 billion (\$666m) worth of loans in the ten months leading up to December 2020;

29 Jan 2021 **Nairobi (Kenya) The Nation**. The health ministry announces that 1.25 million **Kenyans** will be vaccinated between February and June;

26 Jan 2021 **Nairobi (Kenya) The East African**. Investors on the **Nairobi Stock Exchange** have lost a total of KSh203 billion (\$1.86 billion) in the past year due to economic downturn associated with the **Covid-19** pandemic;

28 Jan 2021 **Nairobi (Kenya) Business Daily**. Treasury cabinet secretary **Ukuru Yatani** announces that the national budget will be raised by 3.2% to KSh2.97 trillion (\$27 billion) for the upcoming financial year;

25 Jan 2021 **Nairobi (Kenya) Business Daily**. Parliament is considering providing incentives to **Kenyans** living abroad to invest in **Kenya** via proposed amendments to the **Kenya Citizenship and Immigration (Amendment) Bill, 2020**;

25 Jan 2021 **Nairobi (Kenya) The Nation**. Confirmed cases of **Covid-19** in **Kenya** surpass 100,000;

21 Jan 2021 **Nairobi (Kenya) The East African**. **Kenya** has recorded two cases of **Covid-19** from the **South African** variant;

21 Jan 2021 **Nairobi (Kenya) The East African**. **Kenya** has joined regional neighbours **Tanzania** and **Uganda** in taxing digital transactions via the enactment of the **Digital Service Tax (DST)**;

21 Jan 2021 **Nairobi (Kenya) Business Daily**. **Iran** is seeking greater cooperation with **Kenya**

via the opening of the **Iran House of Innovation and Technology (IHIT)** in **Nairobi**;

19 Jan 2021 **Nairobi (Kenya)** *Business Daily*. The **Chinese** embassy in **Nairobi** confirms that the country is in talks with the **Kenyan** treasury for potential debt service suspension;

18 Jan 2021 **Nairobi (Kenya)** *Business Daily*. Reserves of foreign exchange held by the **Central Bank of Kenya** have fallen to a 34-month low, currently standing at \$7.722 billion;

13 Jan 2021 **Nairobi (Kenya)** *Business Daily*. **Nairobi**-headquartered **Safaricom**'s share price on the **Nairobi Stock Exchange** hits an all-time high of KSh35.10 (\$0.3206) per share;

13 Jan 2021 **Nairobi (Kenya)** *Business Daily*. **Nairobi**-headquartered **Equity Bank Kenya** has obtained KSh5.48 billion (\$50m) from the **Dutch Development Bank** to help it give additional loans to small and medium sized businesses;

13 Jan 2021 **Nairobi (Kenya)** *Business Daily*. The **Kenya Revenue Authority** is hiring 2,000 additional staff members to help pursue high net worth individuals to ensure they are paying the necessary taxes;

12 Jan 2021 **Nairobi (Kenya)** *The East African*. Health cabinet secretary **Mutahi Kagwe** announces that all travelers to and from **Kenya** will now be required to present digitally verified proof of a negative **Covid-19** test;

11 Jan 2021 **Nairobi (Kenya)** *The East African*. Parliament is debating the **Public Debt Management Authority Bill (2020)** that will establish an independent authority to review government borrowing proposals and advise parliament on their viability;

11 Jan 2021 **Nairobi (Kenya)** *The Nation*. **Kenya** receives a six-month reprieve on debt repayments by the **G20 Debt Service Suspension Initiative**.

About Africa Risk Consulting:

Africa Risk Consulting (ARC) is a pan-African consulting company that provides timely, relevant information and advice that enables its clients to take informed investment decisions and to safeguard their reputations.

ARC's core consulting services include integrity due diligence and corporate investigations, political advisory and country assessments, opportunity monitoring and reputation risk management. Most relevant to private equity firms is ARC's integrity due diligence and corporate investigations capability. Specifically, ARC offers pre-deal integrity checks to highlight red flags before negotiations start; full detailed multi-jurisdictional reputation due diligence; and supplier and senior hire vetting and repeat due diligence for compliance programmes. ARC is unique in that it offers a 10-day delivery for a routine integrity due diligence. ARC also offers a suite of corporate investigations services from immediate investigation, evidence gathering, e-discovery, forensic accounting and whistleblower support on one end to crisis media management and regular monitoring on the other.

www.africariskconsulting.com

About ARC Briefing:

ARC Briefing is ARC's essential business information service.

Companies at any stage in their Africa expansion, whether building or communicating an Africa strategy, investing directly, expanding current operations, financing other investors, doing the legal leg-work or researching the Africa growth trend, need ARC Briefing.

ARC Briefing is an information service keeping you:

- Up to date with Country Chronologies of business-critical events
- In the know via Country Briefings on political, economic, business and operating trends. Written in-country, ARC experts analyse and comment
- Ahead with Country Planner which details future elections, budgets, regulatory changes etc.

www.africariskconsulting.com

Getting in touch

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

Follow us on Twitter: [@ARCBriefing](https://twitter.com/ARCBriefing)