

AFRICA RISK CONSULTING

Kenya Monthly Briefing August 2019

Kenya Summary 29 August 2019

The Kenya National Bureau of Statistics (KNBS) conducts its once-in-a-decade National Population and Housing Census, the results of which will shift political boundaries and shape elections. The Building Bridges Initiative winds up and the government will release its recommendations in the coming weeks, which may widen the rift between President Uhuru Kenyatta (2013-present) and deputy president William Ruto, potentially to breaking point. Kenya joins the league of oil producers worldwide – albeit on a small scale – and becomes the first East African nation to export petroleum. Partly government-owned national carrier Kenya Airways posts first-half pre-tax losses of \$83m amid plans to re-nationalise and as regional airline carrier competition intensifies.

The politics of the national census

The government-enforced **National Population and Housing Census 2019** conducted from 24-30 August caused the shutdown of businesses across the country as people provided information about their ethnic identity and much more. The census results will shift **Kenya's** political boundaries and shape elections – which is why the government has been so determined to collect accurate data, even at the expense of the privacy of its 50 million population.¹

The census results are crucial in guiding the government's development plans and expenditure over the next decade, which makes conducting a census a thorny topic in Kenya. As Kenyan politics largely arranges itself along ethnic lines, and elections are won based on the size of the ethnic group, politics and the national census are very much intertwined.

Although the politicisation and the importance of the national census frequently lead to data manipulation, interior secretary **Karanja Kibicho** said that manipulating data to inflate numbers will not work this year because the census is being conducted digitally. Kibicho's comments are in reference to the 2009 census that allegedly experienced data manipulation. North-eastern Kenya recorded a major increase in its population from 962,143 people in 1999 to 2.3 million in 2009, which some politicians dismissed as political manipulation.² **Wajir County** commissioner **Loyford Kibaara** announced on 26 August that police had arrested two chiefs and an assistant chief for attempting to inflate census data to increase numbers in sparsely populated areas.³

Confidentiality has also been a contentious issue, where some citizens have questioned the privacy and anonymity of the census. Although **Article 31** of the **Kenya Constitution, 2010** specifically protects the right to privacy, the state has routinely sidelined this right either without reason or in the guise of national security. Government spokesman **Cyrus Ogunu** said the day before the census that citizens must bring their passports and national identity card numbers "to establish the number of those who have actually acquired these documents".⁴ However, in-country sources say that this is unlikely to be the real reason given that the government controls the issuing of these documents and presumably has a record of them. Instead, sources believe that it is an attempt by the government to collect public data to use for political gain.

¹ ARC correspondent, Kenya

² Capital FM, 27 Aug 2019

³ Daily Nation, 26 Aug 2019.

⁴ Al Jazeera, 27 Aug 2019

Government actions in recent years lead some to worry about the expanding ‘Big Brother’ state. In 2013, the government introduced the **Nyumba Kumi Initiative**, a citizen-led community policing strategy that it borrowed from neighbouring **Tanzania** and **Rwanda**, which encourages citizens to effectively spy on each other to, allegedly, prevent terrorist attacks.

Kenyatta and Ruto division intensifies

The **Building Bridges Initiative (BBI)** task force on 9 August wound up its public hearings on proposals for key constitutional amendments to resolve societal divisions.⁵ Deputy president **William Ruto** is not a supporter of the BBI as he fears it could lead to a deal between Kenyatta and opposition leader **Raila Odinga** under which President **Uhuru Kenyatta** (2013-present) would back Ruto for president in the 2022 elections. As relations between the two top leaders in the right-wing **Jubilee Party** administration have been frayed of late, any major constitutional amendments proposed by the BBI may lead to a referendum that could force Ruto to openly break with Kenyatta and begin an opposition movement.⁶ The government will present the recommendations from the report in the coming weeks.

The government established the BBI in March 2018 as a peace pact between Kenyatta and his long-time political adversary-turned ally Odinga to resolve political societal divisions that were laid bare during the 2007 election violence. The initiative was symbolised by a handshake between the two – that became known as ‘The Handshake’ – which restored peace and stability in the bitterly divided nation.

The BBI recommendations are likely to further divide the ruling **Jubilee Party**. The party has been torn apart over Kenyatta’s anti-corruption drive, which has targeted many of Ruto’s allies. Director of public prosecutions **Noordin Haji** charged 28 top government officials, including former finance minister **Henry Rotich**, with corruption of 21 billion Kenyan shillings (\$203m) on ghost dam construction projects (see *ARC Briefing Kenya July 2019*). Rotich’s arrest would have particularly angered Ruto, given that Kenyatta appointed him in 2013 at Ruto’s request and because he is a key figure from Ruto’s political support base in northern **Rift Valley** region. Ruto supporters believe Kenyatta’s anti-corruption drive is a targeted attack on their political strongholds. Senator **Aaron Cheruiyot** has expressed their concerns:

“The government did not lose 21 billion [Kenyan shillings]. The issue is whether proper procurement procedures were followed. The Ruto base is concerned by what they justifiably see as a biased war on corruption. If you apply logic to almost all the high-profile cases you notice a systemic plot at elimination from high office and nothing to do with corruption.”⁷

Rotich’s trial was set to resume on 8 August. A **Nairobi** magistrate’s court ordered special prosecutor **Taib Ali Taib** to hold a conference with his legal team on 26 August to address concerns raised by defence lawyers representing Rotich and the 27 other top officials.⁸ Trial magistrate **Douglas Ogoti** on 8 August referred the matter to 18 September, when he will convene to confirm compliance.

Kenya joins league of oil exporters

Kenya exported its first shipment of 200,000 barrels of crude oil on 26 August to multinational **ChemChina UK Ltd** through the port of **Mombasa** under the early oil pilot scheme.⁹ This is a key milestone in Kenya’s history as it now joins the league of oil producers worldwide – albeit on a small-scale – as well as becoming the first **East African** nation to export petroleum. While this is a milestone

⁵ Al Jazeera, 18 Aug 2019

⁶ Source, political journalist, Kenya

⁷ Aaron Cheruiyot quoted in Al Jazeera, 18 Aug 2019

⁸ Capital FM, 8 Aug 2019

⁹ The East African, 26 Aug 2019

for Kenya, the country will not reap the benefits of its oil until 2024, as its corporate partners will be seeking to recoup a return on investment estimated at about \$2 billion.

The oil shipment was the first in a pilot scheme between the Kenyan government and corporate partners including **United Kingdom**-based **Tullow Oil** – which has the largest interest in the oil with a 50% stake – **Canada**-based **Africa Oil Corp** and **France**-based **Total SA**. Tullow Oil's chief executive, **Paul McDade**, said trucks are continuing to travel from **Turkana County** in northern Kenya to Mombasa, and more shipments are scheduled in the near future.¹⁰ McDade also said preparation is underway for the full-scale implementation of the oil exportation operations, which is expected in the second half of 2024. Tullow estimates that the Turkana fields hold 560m barrels of oil, but reaching full production potential – estimated at 100,000 barrels per day – will require investment in infrastructure including drilling and pipelines.

The Kenyan government and its corporate partners have been running the pilot scheme since early 2018 and have been transporting 200 barrels of oil per day to test flow rates. Petroleum minister principle secretary **Andrew Kamau** believes there is still much more oil to be explored:

*"We have 400,000 kilometres of sedimentary basin, we have explored 10,000, we've drilled 50 wells – it's nothing."*¹¹

However, some government officials claim that not enough profit from the oil exports will reach the local communities. Deputy governor of Turkana County, **Peter Emuria Lotethiro**, neatly described these concerns:

*"According to our culture as the Turkana people, when we slaughter a goat for a visitor, the owner of the goat must be left with the limbs. The people of Turkana have instructed me that in this oil deal, the limb should be ours."*¹²

Kwale County governor **Salim Mvurya** shared Lotethiro's concerns, saying:

*"We are speaking about the division of revenues from our minerals, and we're aware that the president signed into law the **Mining Act**, but that law hasn't really translated into revenues to the county and the people of Kenya."*¹³

President Uhuru Kenyatta in March signed into law the **Petroleum Act of 2019**, which allocates 5% of state-designated oil profits to local communities, while 20% goes to oil-producing counties and 75% to central government.

Kenyatta also seized upon the governors' remarks to highlight his ongoing campaign against corruption:

*"I have listened to the governors defending their people, but as the president, I'm going to defend the people of Kenya by saying that I hope a piece of this goat reaches every Kenyan. And that's why we're saying we must slay the corruption dragon. So that a few stop benefitting themselves with the national resources and minerals."*¹⁴

Regional aviation market opens

Kenya's national carrier, **Kenya Airways**, on 27 August posted a results statement showing first-half pre-tax losses of KSh8.56 billion (\$83m), which is more than double what it was a year earlier.¹⁵ The latest figures are a worrying sign for the nation's flag carrier airline as the government re-nationalises it to resolve mounting debts and competition within the regional aviation market is intensifying. The

¹⁰ DW, 26 Aug 2019

¹¹ DW, 26 Aug 2019

¹² Al Jazeera, 27 Aug 2019

¹³ Al Jazeera, 27 Aug 2019

¹⁴ Al Jazeera, 27 Aug 2019

¹⁵ Business Live, 27 Aug 2019





Kenyan treasury is currently Kenya Airways' biggest shareholder with a 48.9% stake while banks, which converted their loans into equity, own 38.1%, strategic partner **Netherlands**-based airline **KLM** holds 7.8% and other investors hold 5.2% of the **Nairobi Securities Exchange**-listed company.¹⁶

Kenya Airways chief financial officer **Hellen Mathuka** said the airline's operating costs rose to KSh61.45 billion (\$593m), from KSh53.22 billion (\$513m) in the same period last year, which was partly due to two **Boeing 787** planes that had been sub-leased to **Oman Air** being returned during the first half of the year. On the plus side, Mathuka said its first-half revenue rose 12.2% from a year earlier to KSh58.55 billion (\$566m), which she attributed to the launch of new routes and more frequent flights.

The Kenyan government voted in July to re-nationalise the flailing airline company, which has substantial debts and has gone through three chief executives in the past five years. The government plans to buy out minority shareholders including Air France-KLM's 7.8% stake. Local sources believe it will be a year and half until the government takes back full ownership of the airline.

Kenya Airways is coming under increasing pressure from competitor airlines in the region. Air traffic in **Africa** is forecast to grow 6% annually over the next two decades.¹⁷ **Ethiopian Airlines** still largely dominates the skies. Rwanda and Tanzania have recently revived their flagship national airlines. **Uganda** relaunched its national airline, **Uganda Airlines**, on 27 August after nearly two decades of being inactive, with an inaugural flight to Nairobi. Speaking at **Entebbe International Airport**, Uganda's prime minister, **Ruhakana Rugunda**, said,

*"The airline will first fly to seven destinations, starting with Nairobi, **Mogadishu (Somalia)**, **Juba (South Sudan)** and **Dar es Salaam (Tanzania)**, and then to **Mombasa, Kilimanjaro and Bujumbura.**"¹⁸*

East Africa regional airline comparison				
	Founded	Destinations	Fleet	Profit (\$)
	1977	53	41	-251,099 (2016)
	1945	125 passenger 44 cargo	117	232m (2017)
	Re-launched in 2019 (closed in 2001)	7	2	-
	1977	17	8	-187m

¹⁶ Business Daily, 28 Aug 2019.

¹⁷ Al Jazeera, 27 Aug 2019

¹⁸ Business Live, 27 Aug 2019

Planner

Sep 2019 **Nairobi (Kenya) Central Bank of Kenya** interest rate decision anticipated;
 12 Dec 2019 **(Kenya)** Jamhuri Day national holiday;
 2022 **(Kenya) Daily Nation**. General elections to be held;

Chronology

28 Aug 2019 **Nairobi (Kenya) Reuters**. The **Ethics and Anti-Corruption Commission** suspends a planned merger of **Telkom Kenya** and **Airtel Kenya** pending a probe into misappropriation of funds at Telkom;

27 Aug 2019 **Nairobi (Kenya) Reuters**. **Nation Media Group's** pretax profit fell 24% in the first half of this year, hurt by slowing turnover due to falling advertising revenue;

27 Aug 2019 **Nairobi (Kenya) Business Live**. **Kenya Airways** posts first-half pre-tax losses of more than double from a year earlier to \$83m;

27 Aug 2019 **Entebbe (Uganda) Business Live**. The **Ugandan** government relaunches its national airline, **Uganda Airlines**, after nearly two decades of not being active, with an inaugural flight to **Nairobi**;

26 Aug 2019 **Nairobi (Kenya) The East African**. **Kenya** sends off its first shipment of crude oil, becoming the first oil exporting country in **East Africa**;

26 Aug 2019 **Paris (France) Reuters**. **France**-based oil giant **Total** signs deals to transfer its assets in **Kenya** and **Namibia** to **Qatar's** state-owned **Qatar Petroleum**;

26 Aug 2019 **Nairobi (Kenya) Daily Nation**. Agriculture cabinet secretary **Mwangi Kiunjuri** signs a \$68m specialty tea export deal with **China** that will increase export volumes to over 30m kilograms annually;

24-25 Aug 2019 Nationwide **(Kenya) Reuters**. Government carries out a census, which is the first in **Africa** to include categories for intersex people and people with albinism;

17 Aug 2019 **New York (United States) The Star**. **United States Southern District of New York** judge **Victor Marrero** sentences **Kenya** drug trafficker **Batash Akasha** to 25 years in prison for conspiracy to import heroin and other crimes;

15 Aug 2019 **Nairobi (Kenya) CNBC Africa**. The government approves the issuance of its first \$48.45m green bond which will raise capital for renewable energy projects;

13 Aug 2019 **Nairobi (Kenya) Daily Nation**. Petroleum ministry principal secretary **Andrew Kamau** says the government will endorse **Qatar Petroleum's** acquisition of offshore oil and gas blocks;

9 Aug 2019 **Nairobi (Kenya) The East African**. The **Building Bridges Initiative** task-force concludes public hearings on proposals for key constitutional amendment to resolve societal divisions;

8 Aug 2019 **Nairobi (Kenya) Capital FM**. Trial magistrate **Douglas Ogoti** refers the anti-corruption trial against 28 top **Jubilee Party** officials to 18 September when he will convene to confirm compliance;

7 Aug 2019 **Nairobi (Kenya) Daily Nation**. The government reportedly sent out invitations to banks to subscribe to a \$1.45 billion syndicated loan with a six-year maturity;

5 Aug 2019 **Nairobi (Kenya) Daily Nation**. The **Stanbic Bank Purchasing Managers' Index (PMI)** shows that private sector activity decreased slightly to 54.1 in July, down from 54.3 in

June, though any reading above 50 indicates there is growth in the private sector;

1 Aug 2019 **Nairobi (Kenya) IOL**. The **Kenya National Bureau of Statistics** says that inflation rose to 6.27% in June, up from 5.7% in June;

31 Jul 2019 **Nairobi (Kenya) Daily Nation**. **Michael Joseph**, the interim CEO of telecommunications company **Safaricom**, says he will focus on expanding mobile financial services business **M-Pesa** beyond **Kenya**;

30 Jul 2019 **Nairobi (Kenya) Daily Standard**. The **Kenya Electricity Generating Co** says the **Olkaria V** geothermal plant has added 79 megawatts to Kenya's grid;

25 Jul 2019 **Nairobi (Kenya) Daily Nation**. **David Pkosing**, chair of the parliamentary transport committee, says the government will nationalise **Kenyan Airways**, which should take at least 21 months to buy out minority shareholders;

25 Jul 2019 **Nairobi (Kenya) IOL**. **United Kingdom**-based oil company, **Tullow Oil**, says oil exports from **Kenya** will begin in the third quarter of 2019;

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)