

AFRICA RISK CONSULTING

Kenya Monthly Briefing December 2020

Kenya Summary 11 December 2020

President Uhuru Kenyatta (2013-present) and his government attempt to manage the continuing economic fallout from COVID-19 while partially state-owned airline Kenya Airways finds alternative sources of income. 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 government subsidy measures and borrowing. The Mo Ibrahim Foundation releases its annual Ibrahim Index of African Governance (IIAG), with Kenya faring better than most of its regional neighbours but showing concerning trends in the metrics of security and rule of law.

COVID-19 continues to hit Kenya's economy

COVID-19 continues to have a significant knock-on economic impact on Kenya. The World Bank on 2 December released its report titled "**Kenya Economic Update, Navigating the Pandemic**" in which it anticipates that Kenya's economy will decline by 1-1.5% in 2020 as a result of the pandemic.¹ The tourism ministry estimates that the pandemic caused Kenya to lose \$1 billion in tourism revenue between January and October.²

The backdrop to these concerns are worrying predictions about Kenya's high level of exposure to debt. **Moody's Investor Service** issued a warning on 7 December that Kenyan banks are at risk of a possible downgrade due to their high lending, in particular their high exposure to government risk via their investments in treasury bonds.³ In addition to their exposure to government-related risks, non-performing loans are continuing to increase, impacting the liquidity of many banks. **Absa Bank Kenya** reported on 18 November a 65% decline in profits over the past nine months, largely caused by non-performing loans.⁴

Amid banking sector struggles, President **Uhuru Kenyatta** (2013-present) has many tough decisions to make. One of these has been to backflip on Kenya's initial decision to not accept a reprieve in debt repayments from **G20** countries. Instead, the Kenyan government will now defer KSh75 billion (\$684m) in debt it has accrued from G20 countries to preserve some liquidity in the market in the short to mid-term.⁵ The government, via treasury secretary **Ukur Yatani**, has also announced that it will not extend some of the tax measures introduced to give Kenyans relief from Covid-induced financial stress. Yatani said on 5 December that the lowering of income tax from 30% to 25% and the lowering of value added tax from 16% to 14% will not be extended past 1 January. However, the popular exemption for income tax for Kenyans earning less than KSh24,000 (\$240) per month will continue past this deadline.⁶ The social and economic ramifications of rolling back stimulus measures are only likely to increase frustration among Kenyans at Kenyatta's continuing Covid-19 related restrictions.

While the economy as a whole continues to struggle, partially state-owned airline **Kenya Airways** is making some progress in seeking to diversify its revenue streams. The company, via its subsidiary

¹ The East African, 2 Dec 2020

² The Star, 2 Dec 2020

³ The East African, 7 Dec 2020

⁴ The Nation, 18 Nov 2020

⁵ Business Daily, 19 Nov 2020

⁶ The East African, 5 Dec 2020

Kenya Airways Cargo, has commenced cargo flights within **South Africa**, capitalising on the ongoing grounding of all **South African Airways** planes as they continue to look for a government- or private sector-led bailout.⁷ Kenya Airways also unveiled on 8 December its investment in a pharmaceutical facility located at **Jomo Kenyatta International Airport (JKIA)**.⁸ The facility is designed to store COVID-19 vaccines as they enter the country, and Kenya Airways Cargo will work to deliver the vaccine throughout the country, and potentially the region. The aim is for the new facility to act as a hub for future vaccines and pharmaceuticals to help manage the supply chain and delivery throughout the continent.

Over the coming months Kenyatta and his government will need to balance the easing of financial stimulus initiatives, particularly the rolling back of income tax breaks, with growing social unrest and unhappiness over the country's choice to embark on such hard lockdown measures.

Central Bank holds rate at 7%

The **Central Bank of Kenya (CBK) Monetary Policy Committee (MPC)** decided at its bi-monthly meeting on 26 November to keep the central bank's rate at 7%, continuing the stability that has been seen since April.⁹ In its decision the MPC noted that the global economic outlook for 2020 remains highly uncertain, largely due to resurgence in COVID-19 infections in the advanced economies:

*"As a result, the pace of recovery of the global economy in the second half of 2020 has been dampened by the re-introduction of containment measures in some countries. However, global business sentiment has improved with very recent announcements of COVID-19 vaccines, and the conclusion of the [United States] US elections."*¹⁰

Leading up to the bi-monthly MPC meetings, the CBK undertakes a **Market Perceptions Survey** of private sector respondents. The November survey revealed that respondents were optimistic about their economic prospects in the next 12 months, expecting Covid-19 related restrictions to be gradually lifted. Although respondents expressed concern about the rising number of Covid-19 cases in Kenya, the prospect of a vaccine was cause for optimism.¹¹ The percentage of respondents expecting to lay off additional staff declined compared to the September survey and banks anticipated an uptick in private sector credit. The mixed fortunes of sectors and the way in which they have been impacted by President Kenyatta's various restrictions is evident with 96% of surveyed hotels now open, compared to 89% in September. Occupancy was reported at just 23% indicating that many hotels are likely operating at a loss. All flower farms surveyed are now open for business, compared to just 56% in April and May, a critical increase in a sector that earns foreign exchange for the country and hires those in the agriculture sector.¹²

CBK governor and MPC chairman **Patrick Njoroge** noted that Kenya's GDP has contracted by 0.4% in the first half of 2020 due in large part to the COVID-19 pandemic. Sectors hit hardest include transport, storage, education, and the hospitality sector. The decline of these sectors was, however, assisted by stability or growth in the health, ICT, agriculture and the financial and insurance sectors.¹³

Kenya's foreign reserves are sufficient to cover 4.89 months of imports, a drop from the 5.22 months covered at the announcement that followed the September MPC meeting. Inflation rose slightly to 4.8% in October compared to 4.2% in September but is within a band deemed reasonable by the MPC. The MPC once again stated its willingness to address fiscal and policy measures with a degree of flexibility to address the evolving pandemic, noting that:

⁷ Business Daily, 25 Nov 2020

⁸ Logistics Update Africa, 8 Dec 2020

⁹ Central Bank of Kenya, Nov 2020

¹⁰ Central Bank of Kenya, Nov 2020

¹¹ Central Bank of Kenya, Nov 2020

¹² Central Bank of Kenya, Nov 2020

¹³ Central Bank of Kenya, Nov 2020

“[The committee will] continue to closely monitor the impact of the policy measures so far, as well as developments in the global and domestic economy, and stands ready to take additional measures as necessary.”¹⁴

The MPC committed to continue implementing the 2020/21 budget passed by parliament in June in conjunction with the economic stimulus programme to help cushion citizens and the economy against the fallout of COVID-19. The next meeting of the MPC is scheduled for January 2021, unless an urgent meeting is required before then.

Increasing deterioration in Kenya governance scores

Kenya has received a mixed report card in the **Mo Ibrahim Foundation’s annual Ibrahim Index of African Governance (IIAG)**, released on 16 November. The IIAG has been published annually since 2007 and positions itself as:

“the most comprehensive dataset measuring African governance, providing specific scores and trends at African continental, regional, and national level, on a whole spectrum of thematic governance dimensions, from security to justice to rights and economic opportunity to health”.¹⁵

In the 2020 index Kenya scored 58.5 out of 100 for overall governance, ranking the country 14th out of the 54 African countries surveyed. Kenya’s trend was +3.7 over the past ten years indicating what the index refers to as a “*slowing improvement*” on the governance indices.

The index looks at four streams of governance: security and rule of law; participation, rights and inclusion; foundations for economic opportunity; and human development. Kenya gained its strongest ranking, with a score of 66.7, in foundations for economic opportunities, ranking fifth out of the countries surveyed. Key sub-sections in this index include public administration, business environment, infrastructure and the rural sector. Kenya’s lowest score was in participation, rights and inclusion, with a score of 51.6, ranking the country 19th of the 54 countries surveyed. Concerningly the country’s ten-year trend in this category is negative at -0.6.

While Kenya fared fairly well in security and rule of law, with a score of 56.3 and a ranking of 18, the country is showing what the index refers to as “*increasing deterioration*” in its ten-year trend. Specifically, Kenya performed particularly badly in metrics such as absence of violence against citizens; impartiality of the judiciary; equality before the law; absence of undue influence on government; anti-corruption mechanisms; disclosure of financial and judicial information and accessibility of information. In each of these metrics, Kenya’s 10-year trend is alarmingly negative, with a trend ranking above -10.

Kenya remains ranked in the top half of countries surveyed. Compared to other countries in the **East African Community (EAC)** in the overall governance rankings, Kenya ranked below **Rwanda** (11th) but above **Tanzania** (19th), **Uganda** (22nd), **Burundi** (44th) and **South Sudan** (53rd). The IIAG notes, however, that there is not sufficient data to provide South Sudan with a 10-year trend trajectory as the country was only formed in 2011.¹⁶

¹⁴ Central Bank of Kenya, Nov 2020

¹⁵ Mo Ibrahim Index, 2020

¹⁶ Mo Ibrahim Index, 2020

Planner

12 Dec 2020 **(Kenya)** National holiday, **Jamhuri Day**

31 Dec 2020 **(East Africa)** Current trade agreement between the **United Kingdom** and the **East African Community (EAC)** expires;

1 Jan 2021 **(Africa)** Scheduled launch of the **African Continental Free Trade Area (AfCFTA)**;

Jan 2021 **Nairobi (Kenya)** **Central Bank of Kenya** Monetary Policy Committee meeting (TBA);

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

Chronology

9 Dec 2020 **Nairobi (Kenya)** *The Nation*. The team advocating for the **Building Bridges Initiative**, led by **National Assembly** minority whip **Junet Mohammed**, has collected the signatures required to progress the initiative and will now present it to the **Independent Electoral and Boundaries Commission (IEBC)**;

9 Dec 2020 **Nairobi (Kenya)** *The East African*. **Ethiopia's** prime minister, **Abiy Ahmed**, meets with President **Uhuru Kenyatta** for the opening of the one stop border post in **Moyale (Marsabit County)**;

7 Dec 2020 **Nairobi (Kenya)** *The Nation*. **British American Tobacco Kenya plc** managing director **Beverley Spencer-Obatoyinbo** resigns and is replaced by **Crispin Achola**;

7 Dec 2020 **Nairobi (Kenya)** *The East African*. **Moody's Investor Service** warns that **Kenyan** banks are at risk of a possible downgrade due to their high lending and heavy exposure to government via their investments in treasury bonds;

5 Dec 2020 **Nairobi (Kenya)** *The East African*. Treasury secretary **Ukur Yatani** says Kenya's corporate tax rate will revert to 30% and value added tax to 16% on 1 January; however, tax exemption for those earning below KSh24,000 (\$240) per month will continue as the country battles the economic fallout of **Covid-19**;

2 Dec 2020 **Nairobi (Kenya)** *The East African*. **World Bank's** report "**Kenya Economic Update, Navigating the Pandemic**" predicts that **Covid-19** will cause Kenya's economy to decline by 1-1.5% in 2020;

2 Dec 2020 **Nairobi (Kenya)** *The Star*. Tourism ministry says **Kenya's** tourism sector lost almost \$1 billion in revenue between January and October due to the **coronavirus** pandemic;

1 Dec 2020 **Nairobi (Kenya)** *The East African*. The **Kenyan** government is awaiting approval from the **East African Council of Ministers** to allow it to sign a separate bilateral trade deal with the **United Kingdom (UK)** that will allow the parties to sign the **UK-Kenya free trade agreement** before the 31 December deadline;

1 Dec 2020 **Nairobi (Kenya)** *Business Daily*. **Kenya** receives an additional two-year extension to limit sugar imports from **Common Market for Eastern and Southern Africa (Comesa)** to allow it to further develop its local industry;

30 Nov 2020 **Nairobi (Kenya)** *Business Daily*. Partially state-owned **Kenya Airways** resumes flights to **New York City (United States)** after a nine-month pause due to **Covid-19**;

29 Nov 2020 **Nairobi (Kenya)** *The Nation*. Confirmed cases of **Covid-19** surpass 80,000 in **Kenya**;

27 Nov 2020 **Nairobi (Kenya)** *The East African*. **Kenyan**-headquartered **KCB Bank** signs a deal with **London**-listed **Atlas Mara** to buy stakes in its **Tanzanian** and **Rwandan** banking units;

26 Nov 2020 **Nairobi (Kenya)** *Business Daily*. **United Kingdom**-headquartered **Tullow Oil** is working to restructure its operations in northern **Kenya** to reduce costs to cater for lower

crude oil prices;

25 Nov 2020 **Nairobi (Kenya)** *Business Daily*. Partially state owned **Kenya Airways** has commenced cargo flights within **South Africa** to capitalise on the grounding of state-owned **South African Airways** planes due to economic constraints;

23 Nov 2020 **Nairobi (Kenya)** *Business Daily*. The **Kenya Investment Authority (KIA)** announces a three-day exhibition to run from 26-28 November for manufacturers that want to create linkages with **Chinese** companies;

20 Nov 2020 **Nairobi (Kenya)** *Business Daily*. **United States-Canadian** company **WalAm Energy Inc** has requested that the **World Bank** tribunal assist it in recouping KSh37 billion (\$337 m) in compensation, alleging that the **Kenyan** government unlawfully revoked its geothermal licence;

19 Nov 2020 **Nairobi (Kenya)** *Business Daily*. Current identification cards will become invalid as the government commences rolling out the **Huduma Namba** cards in December;

19 Nov 2020 **Nairobi (Kenya)** *Business Daily*. **Kenya** decides to defer KSh75 billion (\$684 m) in debt repayments, after declining the offer by the **G20** countries' **Covid-19** debt relief offering in May;

18 Nov 2020 **Nairobi (Kenya)** *The Nation*. **Nairobi**-headquartered **Absa Bank Kenya** reports that its profits dropped by 65% in nine months largely due to non-performing loans during **Covid-19**.

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