

AFRICA RISK CONSULTING

Kenya Monthly Briefing July 2021

Kenya Summary 12 July 2021

President Uhuru Kenyatta (2013-present) and his administration continue to struggle to contain the spread of Covid-19, a challenge that is currently exacerbated by a shortage of vaccines in the country. Treasury secretary Ukur Yatani presents the 2021/22 national budget to parliament. The budget has an overwhelming focus on recurrent spending, largely driven by debt repayments, leading to concerns as to how the government will fund other areas of the economy. Kenya's tumultuous relationship with neighbouring Somalia appears to be back on a positive trajectory with the 15 June announcement that Kenya will re-open its embassy in Mogadishu.

Vaccine shortages hamper efforts to curb Covid-19 ...

President **Uhuru Kenyatta** (2013-present) and his administration continue their attempts to juggle containment of the **Covid-19** pandemic with the challenging economic and social impact of the virus, a challenge that has been compounded by a shortage of Covid-19 vaccines in the country. Case numbers continue to increase in **Kenya** and confirmed Covid-19-related deaths have surpassed 3,500 in Kenya's population of roughly 55 million.¹ Although a 10pm – 4am curfew is still in effect throughout the country, movement between counties is no longer restricted. However, additional restrictions on movement have been put in place specifically in the lake region, including limiting hospital visitors to one per patient per day, a cap of 30 people at weddings, a ban on religious ceremonies and a requirement that all funerals take place within three days of death occurring.² Meanwhile, Kenya is making further progress in normalising international access with partially state-owned **Kenya Airways** announcing the recommencement of direct flights to **London (United Kingdom)** from 26 June.³

Kenya continues to rely heavily on donor funding and debt relief to stabilise its economy throughout the protracted pandemic. The **International Monetary Fund (IMF)** on 23 June approved immediate disbursement of a further \$407m to Kenya after completing its first review of two agreements approved in April.⁴ Kenya has also received assistance in the form of deferred loan repayments with a number of developed countries extending a moratorium on payments, which will see the country save \$361m in the short term.⁵

A shortage of vaccine doses and difficulty in administering these are hampering Kenya's efforts to stabilise the economy. The health ministry has administered all 1,020,000 **AstraZeneca** doses received under the **World Health Organisation (WHO)**-led **COVAX** scheme.⁶ However, it was announced on 21 June that **Denmark** would donate an additional 358,000 Covid-19 vaccine doses to Kenya.⁷ Kenya has also received Covid-19 vaccine doses from neighbouring countries including **Sudan**, including an additional 72,000 doses after Sudan returned the vaccines to COVAX due to its inability to administer them within the required time period.⁸ It is believed that the limited doses of the vaccines available in Kenya at present are being ringfenced for those who have received their first

¹ The Nation, 23 Jun 2021

² The Nation, 17 Jun 2021

³ Business Daily, 15 Jun 2021

⁴ Daily Nation, 23 Jun 2021

⁵ Business Daily, 29 Jun 2021

⁶ Gavi: the vaccine alliance

⁷ The Nation, 21 Jun 2021

⁸ The East African, 26 May 2021

dose and are now awaiting their second dose. The rush to vaccinate has also become increasingly political with President Kenyatta announcing on 30 June that all adults would be vaccinated by 2022, election year.⁹

Challenges in administering the vaccine continue. While the initial doses were reserved for frontline workers, high levels of vaccine hesitancy were reportedly prevalent among those eligible. That saw the government open up opportunities for vaccination to a broader section of the community. However, with Kenya already in its third wave of the pandemic, hesitancy – at least in urban areas – appears to be receding with demand for vaccines significantly outstripping current supply. Kenya is likely to rely on COVAX, noting that to date it has only received approximately one-third of its allocated vaccines through the scheme. However, the country may also need to look towards additional government purchases and potential private importation of vaccines in order to minimise the health implication of the pandemic and help the economy stabilise.

Parliament passes 2021/2022 budget

Kenya's 2021/22 budget, presented to parliament by treasury secretary **Ukur Yatani** on 10 June, is overwhelmingly geared towards servicing its debt.¹⁰ Approximately 70% of revenue targets for 2021/2022 are funnelled towards debt repayment, leaving precious little funding for other areas of the economy and government ambitions. Multinational financial consultancy **Deloitte's** voiced concerns over Kenya's growing overexposure to debt:

*"Whereas debt may be beneficial to the extent that it allows for accelerated development, particularly with respect to infrastructure projects that are expected to catalyse economic growth, the same may also result in adverse consequences. This is particularly true where the growth in debt is not matched by the growth in revenue and therefore increased debt servicing commitments eat into revenues purposed at development."*¹¹

The budget targets key areas of the economy, in particular those sectors that have been adversely impacted by the pandemic. The budget sees a 9% increase over the 2019/20 budget, forecasting KSh 3.66 trillion (\$33.9 billion) in expenditure, of which KSh 2.6 trillion (\$24.1 billion) is earmarked for recurrent expenditure.¹² The budget makes provision for a KSh 47.7 billion (\$445.7m) allocation to assist the country in obtaining universal healthcare coverage, with an additional KSh 5.8 billion (\$54m) going directly towards fighting HIV/Aids, malaria and tuberculosis. KSh 14.3 billion (\$133.6m) has been set aside for the purchase of Covid-19 vaccines.¹³ The struggling tourism sector also received a boost, with KSh 1.7 billion (\$15.8m) set aside for the tourism fund and an additional KSh 643m (\$6m) for tourism promotion.

The energy sector receives significant funding as the country moves towards reducing the percentage of those without access to electricity. Kenya has made significant progress on this to date with the **Energy Progress Report for 2021**, jointly written by the **World Bank** and the **International Energy Agency**, ranking Kenya first in countries surveyed for efforts in reducing the percentage of its population that does not have access to electricity.¹⁴ To further this aim, the 2021/22 budget saw KSh 71.9 billion (\$627m) set aside for access to reliable power and an additional KSh 50.1 billion (\$468m) for distribution and transmission of power. The country's ICT sector also received attention, with KSh 20.9 billion (\$195m) put aside for ICT initiatives and an additional KSh 670m (\$6.2m) to fund digital literacy initiatives specifically.¹⁵

In a bid to tackle youth unemployment, Yatani announced measures to encourage employers to hire graduates with technical and vocational expertise. Companies that hire 10 or more such graduates

⁹ The East African, 30 Jun 2021

¹⁰ Deloitte, Kenya Budget Analysis 2021/22

¹¹ Deloitte, Kenya Budget Analysis 2021/22

¹² Deloitte, Kenya Budget Analysis 2021/22

¹³ Deloitte, Kenya Budget Analysis 2021/22

¹⁴ The East African, 8 Jul 2021

¹⁵ Deloitte, Kenya Budget Analysis 2021/22

will be eligible to claim a tax rebate equal to 50% of the salaries paid. Companies are, however, now under the government's microscope for a longer period. The statute of limitations for taxes increases from five to seven years, meaning that the **Kenya Revenue Authority** can undertake audits seven years back and companies must therefore keep files for this length of time.

Although the budget hit all the key areas, with a focus on health, infrastructure, tourism, ICT and power, Kenya's ability to disburse funds remains a key concern in the short to mid-term amidst rising debt repayments. The ongoing economic impact of the pandemic is likely to exacerbate these concerns.

Kenya–Somali relations warming

Kenya's uneasy relationship with its northern neighbour, **Somalia**, appears to be warming slightly with the 15 June announcement by the ministry of foreign affairs that Kenya will re-open its embassy in **Mogadishu**.¹⁶ This follows an announcement on 10 June that the **Kenya Civil Aviation Authority (KCAA)** had reversed the three-month ban it had imposed on direct flights between the two countries.¹⁷ The ban was linked to the 17 May announcement that Kenya would close its borders to both Somalia and **Tanzania** as part of its fight against the Covid-19 pandemic. Diplomatic ties between the two countries were previously severed at the request of Somalia and only re-commenced on 6 May.¹⁸

The relationship between the two countries has been mired in security, political and trade concerns in recent months. In December Somalia attempted, but ultimately failed, to have Kenya reprimanded by the **Intergovernmental Authority on Development (IGAD)** over allegations that the Kenyan government was assisting Somali militia and interfering in the country's politics.¹⁹ In the background to this decision are the ongoing hearings of the **Maritime Delimitation in the Indian Ocean (Somalia v. Kenya)** case over a maritime border dispute.²⁰

Kenya remains a key country in the fight against terrorism and foreign intervention to tackle **Al Shabab** in Somalia. Balancing security concerns across the region with the need to have a stable and positive trade and diplomatic relationship with Somalia is likely to continue to be a challenge for the Kenyan government.

¹⁶ The East African, 15 Jun 2021

¹⁷ The East African, 10 Jun 2021

¹⁸ The Nation, 6 May 2021

¹⁹ Business Daily, 22 Dec 2020

²⁰ The Nation, 17 Mar 2021

Planner

28 Jul 2021 **Nairobi (Kenya) Central Bank of Kenya** Monetary Policy Committee meeting;
2022 **(Kenya)** General elections

Chronology

8 Jul 2021 **Nairobi (Kenya) The East African**. The **Energy Progress Report for 2021**, written by the **World Bank** and the **International Energy Agency**, has ranked **Kenya** first for its efforts in reducing the percentage of its population that does not have access to electricity;

7 Jul 2021 **Nairobi (Kenya) Business Daily**. The **Nairobi Metropolitan Area Transport Authority** announces that the 12-year concession to run the rapid transport buses along **Thika** and **Mombasa** roads will be put out to tender for private sector participants;

7 Jul 2021 **Nairobi (Kenya) Nation**. Dozens of protesters clash with police in the capital **Nairobi** as they demand an end to lockdowns and curfews put in place to combat the spread of the **coronavirus**;

2 Jul 2021 **Nairobi (Kenya) The East African**. Partially state-owned **Kenya Airways** cuts flights to **Uganda** by 25% following a spike in **Covid-19** cases in Uganda;

2 Jul 2021 **Nairobi (Kenya) Nation**. President **Uhuru Kenyatta** arrives in **Zambia** to attend the funeral of Zambia's post-independence president, **Kenneth Kaunda**;

1 Jul 2021 **Nairobi (Kenya) Nation**. President **Uhuru Kenyatta** meets **France's** President **Emmanuel Macron** for bilateral talks in **Paris**;

30 Jun 2021 **Nairobi (Kenya) World Bank**. **World Bank's** latest analysis projects **Kenya's** GDP to grow by 4.5% in 2021 and 5% in 2022 and 2023, signaling a partial recovery from the **Covid-19** pandemic;

30 Jun 2021 **Nairobi (Kenya) The East African**. President **Uhuru Kenyatta** announces that all adults will be vaccinated by 2022;

29 Jun 2021 **Nairobi (Kenya) Business Daily**. **Kenya** will save \$361m after a number of countries extended a moratorium on debt repayments as the country battles with the **Covid-19** pandemic;

24 Jun 2021 **Nairobi (Kenya) Nation**. The **high court** rules that the impeachment of former **Nairobi** governor **Mike Sonko** was constitutional;

23 Jun 2021 **Nairobi (Kenya) Nation**. The death toll associated with **Covid-19** cases rises above 3,500;

23 Jun 2021 **Nairobi (Kenya) Daily Nation**. **International Monetary Fund** approves immediate disbursement of a further \$407m to **Kenya** after completing its first reviews of two agreements approved in April;

21 Jun 2021 **Nairobi (Kenya) Nation**. A delivery of 358,000 **AstraZeneca** vaccines donated by **Denmark** arrives in **Kenya**;

21 Jun 2021 **Nairobi (Kenya) Nation**. **Italian** consortium **Maire Tecnimont SPA** announces it will construct a \$300m fertiliser factory in **Nakuru**;

18 Jun 2021 **Nairobi (Kenya) Business Daily**. The treasury announces that **Kenya** has raised KSh 108 billion (\$1 billion) through the issuance of a Eurobond at an interest rate of 6.3%;

17 Jun 2021 **Nairobi (Kenya) Nation**. Hospital patients will now be limited to one visitor per day for the foreseeable future and restrictions on 13 lake region counties have strengthened with a cap on 30 people at weddings, a ban on religious ceremonies for 30 days and an

announcement that all funerals must take place within three days of death;

15 Jun 2021 **Nairobi (Kenya) Business Day**. Partially state-owned **Kenya Airways** announces it will re-commence direct flights to **London (United Kingdom)** as of 26 June;

15 Jun 2021 **Nairobi (Kenya) The East African**. The foreign affairs ministry announces it will re-open its embassy in **Mogadishu**, following a period of strained relations with **Somalia**;

14 Jun 2021 **Nairobi (Kenya) Business Day**. Treasury reverses the decision to impose value added tax on asset transfers to real estate investment trusts.

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