

## AFRICA RISK CONSULTING

### Kenya Monthly Briefing October 2022

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#### Kenya Summary 19 October 2022

*President William Ruto (2022-present) announces his 22-member cabinet, which will be tasked with delivering on his pre-election pledges. The cabinet is a mix of veteran bureaucrats and loyalist politicians. The Central Bank of Kenya (CBK) announces on 29 September that it will raise its benchmark interest rate by 75 basis points to 8.25%, the largest margin in more than seven years, to anchor inflation expectations. The Kenya National Bureau of Statistics (KNBS) announces on 30 September that Kenya's inflation rate increased for a seventh successive month in September to 9.2% from 8.5% in August. Kenya's economic growth slows for a fourth straight quarter, with the worst drought in at least 40 years and pre-election tensions impacting heavily on economic output. Outgoing Treasury secretary Ukur Yatani refutes claims by local publication Business Daily that the government defaulted on repayments for its Standard Gauge Railway (SGR) loans in June, leading to a KSh 1.31 billion (\$10.8m) penalty by Chinese lenders. Uganda's President Yoweri Museveni (1986-present) apologises to Kenyans after his son, Muhoozi Kainerugaba, then head of his country's army land forces, threatened to capture Nairobi in under two weeks.*

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#### Ruto nominates his new cabinet...

President **William Ruto** (2022-present) announced his 22-member cabinet on 27 September.<sup>1</sup> The proposed cabinet, a mix of veteran bureaucrats and loyalist politicians, will be tasked with delivering on Ruto's pre-election pledges. Ruto has largely severed ties with most cabinet members of his predecessor, **Uhuru Kenyatta** (2013-2022), retaining only former labour secretary **Simon Chelugui** and former chief administrative secretary at the foreign affairs ministry **Ababu Namwamba** in the new administration.<sup>2</sup>

Ruto's most important appointment is that of **Amani National Congress** party leader **Musalia Mudavadi**, to the post of prime cabinet secretary, in line with the pre-election agreement with the winning **Kenya Kwanza** coalition. Mudavadi will be among the most senior members of the cabinet; only deputy president **Rigathi Gachagua** and Ruto rank higher.<sup>3</sup> Mudavadi will assist "in the coordination and supervision of government ministries and state departments" in consultation with the ruling coalition's parliamentary leadership.<sup>4</sup>

Of the 22 nominated ministers, at least 16 are politicians, some of whom lost parliamentary seats in the 9 August general election, while four are parliamentarians who had just begun their legislative terms, and two are technocrats.<sup>5</sup> Critics of Kenyatta who campaigned for Ruto in the **Mt. Kenya** region were rewarded, including **Moses Kuria**, who has been nominated to the trade ministry, and **Alice Wahome**, who will head to the water ministry.<sup>6</sup> The full list of nominated cabinet members includes:

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<sup>1</sup> African Report, 27 Sep 2022; Bloomberg, 27 Sep 2022

<sup>2</sup> African Report, 27 Sep 2022

<sup>3</sup> African Report, 27 Sep 2022; Bloomberg, 27 Sep 2022

<sup>4</sup> African Report, 27 Sep 2022

<sup>5</sup> KBC Channel, 27 Sep 2022; African Report, 27 Sep 2022

<sup>6</sup> African Report, 27 Sep 2022

Nominated cabinet secretaries	
President	William Ruto (elected)
Deputy president	Rigathi Gachagua (elected)
Prime cabinet secretary	Musalia Mudavadi
Interior	Kithure Kindiki
National treasury and planning	Njuguna Ndung'u
Water, sanitation and irrigation	Alice Wahome
Defence	Aden Duale
East African Community	Rebecca Miano
Foreign and diaspora affairs	Alfred Mutua
Public service, gender and affirmative action	Aisha Jumwa
Trade, investment and industry	Moses Kuria
Environment and forestry	Soipan Tuyu
Roads, transport and public works	Kipchumba Murkomen
Tourism, wildlife and heritage	Penina Malonza
Lands, housing and urban development	Zachariah Mwangi Njeru
Health	Susan Wafula
Agriculture and Livestock	Mithika Linturi
ICT and digital economy	Eliud Owalo
Education	Ezekiel Machogu
Energy and petroleum	Davis Chirchir
Youth affairs, sports and the arts	Ababu Namwamba
Cooperatives and MSME development	Simon Chelugui
Mining, blue economy and maritime affairs	Salim Mvurya
Labour and social protection	Florence Bore

Other appointments are **Justin Muturi** as attorney general, **Mercy Wanjau** as secretary to the cabinet, **Monica Juma** as national security advisor, **Harriet Chiggai** as women's rights agency advisor, and **Japhet Koome** as inspector general.<sup>7</sup>

The nominated cabinet secretaries will undergo confirmation hearings in the **National Assembly**, where lawmakers will vet them and either reject or endorse them before they are formally sworn into office.<sup>8</sup> Ruto is not expected to struggle to push his nominees through the vetting process, as his party control both houses of Parliament.

<sup>7</sup> African Report, 27 Sep 2022

<sup>8</sup> The East African, 27 Sep 2022

## Central bank rate-hike highest in seven years...

The **Central Bank of Kenya (CBK)** announced on 29 September that it had raised its benchmark interest rate by 75 basis points to 8.25% to anchor inflation expectations.<sup>9</sup> This is the second interest hike of the year and the steepest since July 2015. . Inflation has been above the CBK's 7.5% ceiling since June, a level last recorded in 2017 when severe drought pushed up the price of food.<sup>10</sup> The **Kenya National Bureau of Statistics (KNBS)** announced on 30 September that Kenya's inflation rate increased for a seventh successive month in September, to 9.2% year-on-year from 8.5% in August and 8.3 in July. This is the highest month-on-month increase in almost five years

The CBK joins the **South African Reserve Bank (SARB)**, the **United States (US) Federal Reserve** and the **European Central Bank (ECB)** in raising rates by three-quarters of a percentage point this month to control skyrocketing prices.<sup>11</sup> CBK governor **Patrick Njoroge** said the monetary policy committee decided to implement the hike due to sustained inflationary pressures and the potential impact the elevated risk could have on the local economy.<sup>12</sup> Njoroge noted that the government's decision to remove price support measures in September led to an increase in fuel and electricity costs. The government also aims to cut support measures for kerosene and diesel by the end of the year.<sup>13</sup>

During his election campaign, President Ruto pledged to tackle the high cost of living by shifting subsidies to farming inputs rather than directly cushioning consumers.<sup>14</sup> It is expected that the ongoing drought, constrained domestic spending, a weaker shilling, the impacts of the conflict in **Ukraine** and lingering effects of the **Covid-19** pandemic will continue to fan domestic inflation. **United Kingdom**-based risk consultancy **Verisk Maplecroft** published an index on 27 June noting that Kenya is among a list of countries, including **Sri Lanka, Ecuador, Peru and Iran**, facing a heightened risk of civil unrest as their governments struggle with the aftershocks of the surge in inflation.<sup>15</sup>

## ... as economic growth slows

Kenya's economic growth slowed for a fourth straight quarter as the worst drought in at least 40 years and pre-election tensions impacted heavily on output.<sup>16</sup> The KNBS said in an email statement on 11 October that the country's gross domestic product (GDP) increased by 5.2% in the second quarter, down from a 6.8% gain in quarter one.<sup>17</sup> This represents the slowest pace of expansion since the first quarter of 2021 when Covid-19 restrictions weighed on the economy.

The agricultural sector, Kenya's largest economic sector and employer, contracted for a third straight quarter due to the protracted drought, which has left almost 5.5 million facing hunger as agricultural output declined.<sup>18</sup> In a bid to unlock a supply line of relief food and ease hunger, Ruto announced on 3 October a decision to lift the 10-year ban on the cultivation and importation of genetically modified (GM) maize for mass consumption.<sup>19</sup> Ruto said in a statement that permitting GM foods is "*a progressive step towards significantly redefining*

<sup>9</sup> Central Bank of Kenya, 29 Sep 2022

<sup>10</sup> Kenya National Bureau of Statistics, 31 Aug 2022

<sup>11</sup> Bloomberg, 29 Sep 2022

<sup>12</sup> Central Bank of Kenya, 29 Sep 2022

<sup>13</sup> Bloomberg, 29 Sep 2022

<sup>14</sup> Bloomberg, 29 Sep 2022

<sup>15</sup> Bloomberg, 5 Sep 2022

<sup>16</sup> Kenya National Bureau of Statistics, 11 Oct 2022; Bloomberg, 11 Oct 2022

<sup>17</sup> Kenya National Bureau of Statistics, 11 Oct 2022; Bloomberg, 11 Oct 2022

<sup>18</sup> Bloomberg, 11 Oct 2022

<sup>19</sup> The East Africa, 3 Oct 2022

agriculture in Kenya by adopting crops that are resistant to pests and disease".<sup>20</sup> However, the decision has elicited mixed reactions in Kenya and **East Africa**, with some raising concerns over the safety of GM foods.<sup>21</sup>

Uncertainty regarding the outcome of the Kenya's 9 August general election also partly impacted economic output, leading to a broad-based loss in momentum in sectors such as accommodation and restaurants, real estate and other services.<sup>22</sup> However, it is expected to improve in the final quarter of the year following the **Supreme Court's** decision to uphold Ruto's victory and dismiss claims by rival **Raila Odinga** that the votes were marred by irregularities and rigging.<sup>23</sup> US publication **Bloomberg** warned on 11 October that the US Federal Reserve's effort to rein in inflation, the CBK's combined interest rate hike of 125 basis points in 2022 and Ruto's decision to cut public spending by at least 9% may impact growth for the rest of the year.<sup>24</sup> The budget cut of KSh 300 billion (\$2.5 billion) is equivalent to almost half of the planned development spending in the fiscal year through June 2023.

### Treasury refutes claims it defaulted on SGR loans

The **National Treasury** has refuted a report published by the local newspaper **Business Day** on 13 October stating that the government defaulted on repayments for its **Standard Gauge Railway (SGR)** loans in June, leading to a KSh 1.31 billion (\$10.8m) penalty from **Chinese** lenders.<sup>25</sup> The nominee for the position of prime cabinet secretary, **Musalia Mudavadi**, told a parliamentary vetting panel on 17 October that Kenya plans to promptly repay its debts whenever due and avoid a default:

*"We must be an honourable government, and honour in this kind of situation for any nation is your ability to repay your debts. We should not be a country that should walk into the defaulting mode."*<sup>26</sup>

Outgoing treasury secretary **Ukur Yatani** said in a press statement on 13 October that **Business Daily's** report was "*erroneous and misleading*", stating that Kenya has never defaulted on debt service obligations to any creditor and no creditor has filed a claim of default related to payments by Kenya.<sup>27</sup> Yatani added that Kenya's credit score is impressive and there is no cause for alarm.<sup>28</sup>

Kenya's public debt ballooned to KSh 8.6 trillion (\$71 billion) in June, equal to around 68% of its GDP. This figure is up from KSh1.9 trillion (\$16 billion) in 2012 when former president Uhuru Kenyatta took office (*see ARC Briefing Kenya Sep 2022*).<sup>29</sup> These amounts have left Kenya at high risk of debt, as noted by the **International Monetary Fund (IMF)**. The cost of servicing the debt is expected to rise by a third to a record KSh 1.39 trillion (\$12 billion) in the fiscal year through June 2023, more than half the projected state revenue.<sup>30</sup> The government also spent almost 57% of taxable income in the past financial year to pay off loans.

<sup>20</sup> The East Africa, 3 Oct 2022

<sup>21</sup> The East Africa, 3 Oct 2022

<sup>22</sup> Bloomberg, 11 Oct 2022

<sup>23</sup> Bloomberg, 11 Oct 2022

<sup>24</sup> Bloomberg, 11 Oct 2022

<sup>25</sup> Business Daily, 13 Oct 2022; China Global South Project, 18 Oct 2022

<sup>26</sup> Bloomberg, 18 Oct 2022

<sup>27</sup> Treasury of Kenya, 13 Sep 2022

<sup>28</sup> Standard Media, 13 Sep 2022

<sup>29</sup> Bloomberg, 15 Sep 2022

<sup>30</sup> Bloomberg, 5 Sep 2022

## Ugandan president apologises after son threatens to invade Nairobi

Uganda's President **Yoweri Museveni** (1986-present) apologised to Kenyans on 5 October after his son, **Muhoozi Kainerugaba**, head of the country's army land forces at the time, posted a message on social media platform **Twitter** that he could capture **Nairobi** in less than two weeks.<sup>31</sup> The "reckless" tweets threatened to undermine relations between **Kampala** and Nairobi with Kenyan National Assembly speaker **Moses Wetangula** accusing the Ugandan general of "clout chasing".<sup>32</sup>

Kainerugaba also criticised Kenyatta, who stepped down in September after two terms in office, for not attempting an unconstitutional third bid at the presidency in the August poll.<sup>33</sup> After dismissing Kainerugaba as head of the army's land forces on 4 October, Museveni issued a statement of apology on his website on 5 October, noting that public officers should not comment or interfere in the internal affairs of neighbours.

Although some leaders have treated Kainerugaba's 'threats' seriously, most Kenyans on Twitter responded with humour and sarcasm, noting that the Ugandan army is no match for Kenya's modernised military.<sup>34</sup> Foreign affairs cabinet secretary nominee Alfred Mutua also met with Uganda's ambassador to Kenya, **Hassan Wasswa Galiwango**, reporting that they discussed interesting matters, but "*Mambo iko Sawa [things are fine]*".<sup>35</sup>

A Ugandan resident living in Nairobi told **Africa Risk Consulting (ARC)** that Kainerugaba will "continue to be a problem":

*"In the past, he commented on **Rwandan** matters, he annoyed the **Congolese, Ethiopians** and now the Kenyans. This is not his last scandal. Kainerugaba will strike again in the future."*<sup>36</sup>

Kainerugaba, dubbed the "tweeting general" of Uganda, frequently posts controversial tweets on regional matters that have often been criticised by East African officials. It is widely speculated that Kainerugaba may one day succeed his father, which may test relations between Uganda, Kenya and other regional neighbours.<sup>37</sup>

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<sup>31</sup> Bloomberg, 5 Oct 2022

<sup>32</sup> The East African, 4 Oct 2022

<sup>33</sup> Bloomberg, 5 Oct 2022

<sup>34</sup> All Africa, 4 Oct 2022

<sup>35</sup> All Africa, 4 Oct 2022

<sup>36</sup> ARC Source, local resident

<sup>37</sup> The East African, 18 Oct 2022

## Planner

Oct, Nov 2022 **Nairobi (Kenya) National Assembly** vetting of cabinet nominees

## Chronology

18 Oct 2022 **Nairobi (Kenya)** *The East African*. Latest **East African Tea Trade Association (EATTA)** data shows that the volume of tea auctioned at the **Mombasa** bourse dropped by almost 500,000 kilograms in the last trade, the second consecutive drop in under a month, with officials warning the trend may worsen in the next decade due to erratic weather;

17 Oct 2022 **Nairobi (Kenya)** *Bloomberg*. Prime cabinet secretary nominee **Musalia Mudavadi** says **Kenya** plans to repay its debt promptly whenever due and will avoid a default;

14 Oct 2022 **Nairobi (Kenya)** *International Criminal Court*. **International Criminal Court (ICC)** announces it has ended proceedings against **Kenyan** lawyer **Paul Gicheru**, accused of offences against the administration of justice related to Kenya's post-election violence of 2008, following his death two weeks ago;

14 Oct 2022 **Nairobi (Kenya)** *The East African*. President **William Ruto** names former television news anchor **Hussein Mohamed** as **State House** spokesman;

13 Oct 2022 **Nairobi (Kenya)** *Business Day*. Treasury documents reportedly seen by local news publication **Business Daily** allege that **Chinese** banks have been fined KSh 1.312 billion (\$10.8m) for loan defaults for the **Standard Gauge Railway (SGR)**;

12 Oct 2022 **Nairobi (Kenya)** *The Monitor*. **Ugandan** member of parliament **David Wakikona**, who was reported missing after taking a taxi in **Nairobi**, says he is in **Kampala**;

11 Oct 2022 **Nairobi (Kenya)** *Bloomberg*. President **William Ruto** says he plans to sell shares in up to 10 state-owned companies in what could be the first main-market listings on the nation's bourse in more than three years, aiming for initial public offerings to take place within 12 months;

11 Oct 2022 **Nairobi (Kenya)** *The East African*. Government pushes for a restructuring of national carrier **Kenya Airways**, including reducing its network, operating a smaller fleet and possibly reducing its workforce;

11 Oct 2022 **Nairobi (Kenya)** *AA*. President **William Ruto** and his **Tanzanian** counterpart, **Samia Suluhu Hassan**, announce their countries have agreed to strengthen border security to tackle human and drug trafficking, terrorism, and poaching;

8 Oct 2022 **Nairobi (Kenya)** *The Monitor*. President **William Ruto** arrives in **Kampala** ahead of **Uganda's** celebrations to mark 60 years of Independence from **Britain**;

6 Oct 2022 **Addis Ababa (Ethiopia)** *The Monitor*. President **William Ruto** arrives in **Ethiopia** for the launch of **Kenyan** telecommunications company **Safaricom** in the country;

5 Oct 2022 **Kampala (Uganda)** *Reuters*. **Uganda's** President **Yoweri Museveni** apologises to **Kenya** for tweets sent out by his son **Muhoozi Kainerugaba**, including a threat to invade **Nairobi**;

5 Oct 2022 **Nairobi (Kenya)** *Bloomberg*. **India's** largest biscuit manufacturer, **Britannia Industries**, seals a deal for operations in **Kenya** as part of its expansion into **Africa**;

4 Oct 2022 **Nairobi (Kenya)** *Bloomberg*. President **William Ruto** urges **African** countries to embrace renewable energy, breaking ranks with continental peers that are pressing ahead with plans to develop natural gas resources;

3 Oct 2022 **Nairobi (Kenya)** *Ministry of Health*. Health ministry says that there is no cause for alarm after a **Kenyan** patient tested negative for Ebola;

3 Oct 2022 **Nairobi (Kenya)** *The East African*. President **William Ruto** announces a decision to allow the cultivation and importation of genetically modified maize for mass consumption;

3 Oct 2022 **Nairobi (Kenya)** *Bloomberg*. **Central Bank of Kenya (CBK)** moves to reassure investors that the country has ample foreign exchange reserves after deputy president **Gachagua Rigathi** suggested the country is facing a currency crisis;

1 Oct 2022 **Nairobi (Kenya)** *The East African*. **Kenya** reportedly plans to start a programme to list skilled refugees in a digital database to enable them to get work from international organisations interested in outsourcing services;

30 Sep 2022 **Nairobi (Kenya)** *The East African*. President **William Ruto** revives a proposal to impose higher taxes on Kenya's super-rich and high-income earners;

29 Sep 2022 **Nairobi (Kenya)** *Central Bank of Kenya*. **Central Bank of Kenya (CBK)** governor **Patrick Njoroge** announces an increase in the interest rate by 75 basis points to 8.25%, the largest margin increase in more than seven years, to anchor inflation expectations;

29 Sep 2022 **Nairobi (Kenya)** *Bloomberg*. President **William Ruto** proposes reducing spending by KSh 300 billion (\$2.49 billion) in the year through end-June, nearly half of its development budget;

27 Sep 2022 **Nairobi (Kenya)** *Africa Report*. President **William Ruto** names his new cabinet;

27 Sep 2022 **Nairobi (Kenya)** *The East African*. Kenya exports its first goods under the **African Continental Free Trade Area Agreement to Ghana**;

28 Sep 2022 **Nairobi (Kenya)** *Bloomberg*. President **William Ruto** nominates former central bank governor **Njuguna Ndung'u** to lead the Treasury as he prepares to tackle the country's burgeoning debt and surging cost of living.

26 Sep 2022 **Nairobi (Kenya)** *The East African*. **Kenya Ports Authority (KPA)** reverts custom services to the **Port of Mombasa** in line with a presidential decree, allowing traders to clear their cargo at the port and choose their mode of transport to **Nairobi** and the hinterlands;

24 Sep 2022 **Nairobi (Kenya)** *Central Bank of Kenya*. **Central Bank of Kenya (CBK)** projects better performance for the country's economy after a peaceful change in leadership which has coincided with stabilising global prices for basic commodities;

24 Sep 2022 **Nairobi (Kenya)** *United Nations*. **United Nations (UN) Office for Co-ordination of Humanitarian Affairs (OCHA)** states that **Kenya, Somalia** and **Ethiopia** may suffer a longer spell of food shortages following a fifth straight year of drought in their driest regions;

23 Sep 2022 **Nairobi (Kenya)** *The East African*. More than 2,000 **Nigerian** investors have petitioned **Kenyan** courts to unfreeze \$11m locked in local communications company **Safaricom** and four banks;

23 Sep 2022 **Nairobi (Kenya)**. *Skytrax*. National carrier **Kenya Airways** has dropped three places in the latest **Skytrax World Airline Awards** global ranking to 81<sup>st</sup> position;

21 Sep 2022 **New York (United States)** *The East African*. President **William Ruto**, in his maiden address to the **United Nations General Assembly**, urges the **World Bank**, **International Monetary Fund (IMF)** and other lenders to extend new relief for debt-

burdened **African** countries, noting that Africa may be hurt more by climate change, despite contributing the least to it;

21 Sep 2022 **Nairobi (Kenya)** *Bloomberg*. **Central Bank of Kenya (CBK)** governor **Patrick Njoroge** says rapid hikes in interest rates seen across the developed world are making it difficult for countries across **Africa** to obtain access to capital markets;

20 Sep 2022 **Nairobi (Kenya)** *Ministry of Foreign Affairs*. Foreign affairs ministry says President **William Ruto** will use his maiden trip to the **United Nations General Assembly (UNGA)** in **New York** to meet **African** heads of state to discuss climate change and its effects, including the ongoing drought in the **Horn of Africa** and flooding in **Sudan**.

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