

AFRICA RISK CONSULTING

Kenya Monthly Briefing July 2022

Kenya Summary 19 July 2022

Azimio la Umoja One Kenya party flagbearer Raila Odinga maintains a narrow lead over deputy president William Ruto in opinion polls ahead of Kenya's 9 August presidential elections. The Kenya National Bureau of Statistics (KNBS) reports that the local annual inflation rate accelerated to 7.9% in June from 7.1% a month earlier. United States (US)-based bond credit rating house Moody's Investors Service lists Kenya among several African countries that will face problems refinancing loans as bonds mature over the next decade. The International Monetary Fund (IMF) has delayed in providing Kenya with a KSh 28 billion (\$238m) loan, part of a \$2.34 billion extended credit facility and extended fund facility agreed in April 2021 for budget support. The US Joseph Biden (2021-present) administration launches a fresh strategic trade and investment partnership with Kenya, replacing an agreement that the Donald Trump (2017-2021) administration signed with Nairobi in July 2020.

Odinga maintains narrow lead in pre-election poll...

The latest opinion polls before **Kenya's** 9 August presidential elections indicate that **Azimio la Umoja One Kenya** party flagbearer **Raila Odinga** maintains a narrow lead over deputy president **William Ruto**.¹ In a poll published by **Trends & Insights for Africa (TIFA)** on 11 July, 42% of sampled voters favoured Odinga, compared with 39% for Ruto. TIFA conducted the survey from 25 to 30 June with 1,533 respondents. June's poll compares with 39% and 35% for the two candidates respectively in TIFA's survey in May (see *ARC Briefing Kenya June 2022*). The percentage of undecided respondents dropped from 15% in May to 10% in June.²

To win the presidential election and succeed **Uhuru Kenyatta** (2013-present), candidates need to obtain more than 50% of the national vote and at least 25% of the ballots in half of Kenya's 47 counties.³ Odinga is making his fifth bid for president and, in the past five years, has moved from President Kenyatta's bitter rival to his preferred successor.⁴ Ruto, once Kenyatta's close political ally and anointed successor, fell out with the president around March 2018, when Kenyatta entered into a pact with Odinga giving the president firm control of parliament and effectively removing opposition in the final two years of his term.⁵ Since early 2018, Kenyatta and Ruto's relationship has been marked by accusations and counter-accusations, with the president accusing his deputy of early campaigning to succeed him instead of focusing on their legacy projects.⁶ Ruto saw moves to limit his likely succession as betrayal of a pre-2013 pact made while both he and Kenyatta were facing criminal charges at the **International Criminal Court (ICC)**. Ruto is now contesting the presidency as an agent of change, "*an outsider in solidarity with Kenya's working class,*" despite his current role as deputy president, decades in parliament and cabinet, and vast wealth.⁷

¹ Trends & Insights for Africa, 11 Jul 2022

² Trends & Insights for Africa, 17 May 2022

³ Bloomberg, 11 Jul 2022

⁴ Council on Foreign Relations, 9 Feb 2022

⁵ Africa Report, 10 Jun 2020

⁶ Africa Report, 10 Jun 2020

⁷ Council on Foreign Relations, 9 Feb 2022

Analysts say Kenya's August elections will be among **Africa's** most consequential political events this year. In the turbulent **East African** region, Kenya's stability, economic power and diplomatic leadership are of utmost importance; however, **United States (US)**-based think tank **The Council on Foreign Relations** warned in February that "*an electoral process that takes a wrong turn could threaten the country's capacity to continue playing a pivotal regional role going forward.*"⁸ Kenya's recent political history has sometimes turned violent, with candidates and their supporters using identity politics to divide the electorate, leading to fatalities in some electoral cycles.⁹ Ruto and Odinga have accused each other of foul play, such as accepting questionable campaign funding and disrupting campaign events,¹⁰ leading some experts to argue that the stage is set for a bruising electoral and political contest. However, a local source told **Africa Risk Consulting (ARC)** that the country's economic situation is not expected to change irrespective of who wins the 9 August election:

*"It does not matter if Azimio or Kenya Kwanza wins the election. We have a bigger problem of inflation, poverty and unemployment. I don't see any of the candidates fixing those issues in the next two years."*¹¹

... as Kenya's inflation hits five-year high of 7.9%

TIFA's poll comes after the two frontrunners presented their campaign manifestos, with both focussing on ideas to boost the flagging economy. Whoever wins the August election will have to manage an economy struggling to recover from the impact of **Covid-19** amid the fastest increases in consumer prices since 2017, accelerated by the conflict in **Ukraine** and the worst drought in four decades.¹² Odinga promises to restructure government debt and provide a monthly cash transfer to the poorest and most vulnerable households, while Ruto proposes to provide soft loans to small businesses in industries that are able to create the most jobs, such as farming.¹³

Inflation has accelerated since March, stoked by rising food and record fuel prices due to choked supply chains caused by **Russia's** invasion of Ukraine.¹⁴ The **Kenya National Bureau of Statistics (KNBS)** reported on 30 June that the local annual inflation rate accelerated to 7.9% in June from 7.1% a month earlier.¹⁵ This is the highest level recorded since August 2017 and breaches the **Central Bank of Kenya (CBK)** inflation target of 2.5%-7.5%, increasing pressure on the CBK to hike the key interest rate further.¹⁶ The CBK raised its interest rate for the first time in almost seven years on 30 May to anchor inflation expectations as concerns about commodity prices mount (see *ARC Briefing Kenya June 2022*).¹⁷ CBK governor **Patrick Njoroge** said on 30 May that the **Monetary Policy Committee (MPC)** had increased the rate by 50 basis points to 7.5% from 7% because of "*elevated risks to the inflation outlook due to increased global commodity prices and supply chain disruptions*".¹⁸

Annual food and non-alcoholic drink inflation accelerated to 13.8% from 12.4% reported in May, and housing, utilities and other fuels price growth quickened to 6.8% in June from 6%.¹⁹ A **World Food Programme (WFP)** study published on 7 June predicts that Kenya is likely to face

⁸ Council on Foreign Relations, 9 Feb 2022

⁹ Council on Foreign Relations, 9 Feb 2022

¹⁰ Council on Foreign Relations, 9 Feb 2022

¹¹ ARC Source, Local Resident

¹² Bloomberg, 11 Jul 2022

¹³ Bloomberg, 11 Jul 2022

¹⁴ Bloomberg, 30 Jun 2022

¹⁵ Kenya National Bureau of Statistics, 30 Jun 2022

¹⁶ Bloomberg, 30 Jun 2022

¹⁷ Bloomberg, 30 May 2022

¹⁸ Central Bank of Kenya, 30 May 2022

¹⁹ Kenya National Bureau of Statistics, 30 Jun 2022

increased price pressures on food in the upcoming months because of reduced corn production due to the doubling of fertiliser costs and poor rainfall.²⁰

There are also concerns that the **Treasury's** plans to end its fuel subsidy programme in the fiscal year starting 1 July, will fan inflation.²¹ The **Energy and Petroleum Regulatory Authority (EPRA)** was expected to further raise fuel prices to a new record high after the Treasury announced that it would gradually withdraw the fuel subsidy to ease pressure on government coffers.²² However, in a reprieve from an expected fuel price increase, President Kenyatta announced on 14 July a fresh round of subsidies in a bid to prevent rises in prices at the pump.²³ The EPRA announced on 14 July that it had allocated KSh 16.68 billion (\$139.85m) to subsidise petrol prices from 15 July to 14 August.²⁴ A litre of super-grade petrol has been subsidised by KSh 50.66 (\$0.43), diesel by KSh 53.70 (\$0.45) and kerosene by KSh 53.22 (\$0.45). The price of each type of fuel remains unchanged at KSh 159.12 (\$1.34), KSh 140.01 (\$1.18) and KSh 127.94 (\$1.08) per litre respectively.²⁵ **World Bank** country director **Keith Hansen** said on 7 June that,

*"While Kenya's economy has been resilient, the multiple recent shocks show the urgency of improving social protection mechanisms to cushion the most vulnerable households."*²⁶

Kenyan economy vulnerable to debt burden

According to a report published by US-based bond credit rating house **Moody's Investors Service** on 28 June, Kenya is among several African countries that will face problems refinancing loans as bonds mature over the next decade.²⁷ Moody's vice president and senior analyst **David Rogovic** warns that a "wall" of bond maturities and deteriorating financial conditions will accelerate financial pressure in Kenya, **Ghana, Egypt** and **Tunisia** as they push to roll over debt repayments due between 2022 and 2026.²⁸ Rogovic said the quantity of debt owed compared to reserves and fiscal difficulties in managing debt loads make these countries vulnerable:

*"These countries are the most vulnerable just because of the amount of debt coming due relative to reserves, and the fiscal challenges in terms of stabilising debt burdens."*²⁹

Kenya lacks access to financing markets and has bonds worth over \$500m that mature in 2024.³⁰ According to Moody's, a US **Federal Reserve** rate increase, strong dollar and high inflation will make financial conditions more difficult. Currency devaluation has seen the shilling decline by 3.6% against the dollar and could put additional strain on Kenya's ability to repay its debts, given that dollar payments comprise 70% of Kenya's external debt.³¹ Kenya is reportedly spending almost 30% of its income on interest payments.³²

²⁰ World Food Programme, 7 Jun 2022

²¹ Bloomberg, 30 Jun 2022

²² Africa News, 14 Jul 2022

²³ Africa News, 14 Jul 2022

²⁴ Africa News, 14 Jul 2022

²⁵ Africa News, 14 Jul 2022

²⁶ Bloomberg, 30 May 2022

²⁷ Moody's Investors Service, 28 Jun 2022

²⁸ African Business, 30 Jun 2022

²⁹ Moody's Investors Service, 28 Jun 2022

³⁰ Kenyans, 16 Jul 2022

³¹ Kenyans, 16 Jul 2022

³² Kenyans, 16 Jul 2022

Kenya's government may have to find alternative sources to fund its current budget due to a delay by the **International Monetary Fund (IMF)** in providing it with a KSh 28 billion (\$238m) loan.³³ The funding is part of a \$2.34 billion extended credit facility and extended fund facility agreed with the IMF in April 2021 for budget support.³⁴ The loan needs board approval after a staff-level agreement with the lender was reached in April. Without giving reasons for the delay, an unnamed spokesman for the lender said the board is only expected to meet in the "coming weeks" to give final approval.³⁵ The IMF official said "*the modest delay in the timing of the anticipated IMF financing could be mitigated by securing alternative source of financing*".³⁶

Kenya had included the IMF loan in its net external financing requirement of KSh 280.7 billion (\$2.37 billion) for the fiscal year ending this month, and the delay is expected to place further pressure on the government to source budget funding.³⁷ Earlier in June, Kenya also paused plans to sell **Eurobonds** in 2022 because of a surge in yields that have made issuances too expensive, saying it aimed to borrow about \$1 billion from banks by the end of June instead.³⁸ Kenya's \$2 billion notes maturing in June 2024 are trading at distressed levels.

Biden dumps Kenya's trade deal with Trump...

The US **Joseph Biden** (2021-present) administration on 14 July launched a fresh strategic trade and investment partnership with Kenya, replacing an agreement signed by the **Donald Trump** (2017-2021) administration with **Nairobi** in July 2020.³⁹ The deal is expected to boost economic growth, support African regional economic integration and deepen trade cooperation.⁴⁰ The **US Trade Representative's Office** said in a statement on 14 July that both countries will within three months work to develop a road map for engagement in ten areas including agriculture, safety and digital standards, regulatory practices, climate change, and trade facilitation and customs procedures.⁴¹ However, the partnership agreement did not mention reducing tariffs or enhancing market access, in line with other recently launched US trade negotiations with the **United Kingdom, European Union and Indo-Pacific** countries.⁴²

Kenya enjoys duty-free access to the US market through the **Africa Growth and Opportunity Act (AGOA)**, a trade preference programme for **sub-Saharan African** countries. However, Kenya's access to AGOA expires in September 2025.⁴³ Negotiations on a full **Free Trade Agreement** began on 8 July 2020 during the Trump administration, but were derailed by Covid-19 and the 2020 US elections. When Biden assumed office in January 2021, US negotiators sought more time to scrutinise the deal.

US Trade Representative ambassador **Katherine Tai**, who launched the strategic partnership with Kenya's trade minister, **Betty Maina**, during a virtual meeting on 14 July, said she wants the partnership to "*grow our trade and investment relationship in a way that promotes resilience and facilitates sustainable and inclusive economic growth*."⁴⁴ She expressed hope that the agreement could serve as a model for trade policy engagement in Africa, one of the fastest-growing regions globally. The chair of the trade and tax-focused US House of Representatives

³³ Bloomberg, 27 Jun 2022

³⁴ Bloomberg, 27 Jun 2022

³⁵ Bloomberg, 27 Jun 2022

³⁶ Bloomberg, 27 Jun 2022

³⁷ Bloomberg, 27 Jun 2022

³⁸ Bloomberg, 27 Jun 2022

³⁹ Business Daily Africa, 15 Jul 2022

⁴⁰ CNBC Africa, 14 Jul 2022

⁴¹ Business Daily Africa, 15 Jul 2022

⁴² CNBC Africa, 14 Jul 2022

⁴³ Reuters, 14 Jul 2022

⁴⁴ CNBC Africa, 14 Jul 2022

Ways and Means Committee, Richard Neal, said he hopes the bilateral US-Kenya negotiations could develop into a full trade deal:

“This initiative will lay the groundwork for a comprehensive free trade agreement that includes market access, builds off AGOA, and complements both regional and continental integration.”⁴⁵

Neal also highlighted that **Washington** should “embrace” Kenya’s willingness to deepen its economic relations with the US. The US **Senate** on 14 July finally approved **Margaret Cushing Whitman** to be Washington’s new ambassador to Kenya, ending more than a year’s wait for a substantive head of mission to one of its key allies.⁴⁶ Whitman is a former chief executive and president of US-based technology firm **Hewlett Packard (HP)**.

Planner

9 Aug 2022 **Nairobi (Kenya)** Presidential election;

Chronology

17 Jul 2022 **Nairobi (Kenya)** *Africa News*. Newly elected **Somalian** president **Hassan Sheikh Mohamud** ends a two-day official visit to his Kenyan counterpart, **Uhuru Kenyatta**.

16 Jul 2022 **Nairobi (Kenya)** *SABC*. Somalia and Kenya sign deals on khat and aviation during an official two-day visit to Kenya by newly elected Somalia president **Hassan Sheikh Mohamud**;

16 Jul 2022 **Nairobi (Kenya)** *Capital Fm*. **European Union Election Observation Mission** to Kenya chief observer **Ivan Štefánek** says the mission will deploy 180 election monitors in 39 Kenyan counties, including 48 short-term observers who will arrive in Kenya shortly before election day on 9 August;

15 Jul 2022 **Nairobi (Kenya)** *World Grain*. **African Development Bank Group (AfDB)** board of directors has approved a €63m (\$64m) loan to Kenya to boost grains and oilseeds production by over 1.5 million tonnes over the next two years, as part of the AfDB’s \$1.5 billion **African Emergency Food Production Facility**, an **Africa-wide** initiative to avert a looming food crisis exacerbated by the war in **Ukraine**;

15 Jul 2022 **Nairobi (Kenya)**. *Business Daily Africa*. Kenya is among the beneficiaries of the new KSh2.36 trillion (\$20 billion) pledge by the **Bill and Melinda Gates Foundation**;

14 Jul 2022 **Nairobi (Kenya)**. *The Citizen*. **United States (US)** Senate approves **Margaret Cushing Whitman** to be **Washington’s** new ambassador to Kenya, ending more than a year’s wait for a substantive head of mission to one of its key allies;

14 Jul 2022 **Nairobi (Kenya)**. *CNBC Africa*. **United States** and Kenya launch a strategic trade and investment partnership to pursue commitments to boost economic growth, support **African** regional economic integration and deepen trade cooperation;

14 Jul 2022 **Nairobi (Kenya)** *Africa News*. President **Uhuru Kenyatta** announces a fresh round of fuel subsidies in a bid to prevent a rise in prices at the pump, with the **Energy and Petroleum Regulatory Authority (EPRA)** noting allocation of KSh 16.68 billion (\$140m) to subsidise fuel prices from 15 July to 14 August;

⁴⁵ CNBC Africa, 14 Jul 2022

⁴⁶ The Citizen, 14 Jul 2022

13 Jul 2022 **Nairobi (Kenya)** *The East African*. Former **Botswana** president **Festus Mogae** will lead a team of election observers from the **Commonwealth** for the Kenyan polls scheduled for 9 August;

11 Jul 2022 **Nairobi (Kenya)** *Trends & Insights for Africa*. **Azimio la Umoja One Kenya** party flagbearer **Raila Odinga** maintains a narrow lead over deputy president **William Ruto** in the latest pre-election poll by **Trends & Insights for Africa (TIFA)**, with the support of 42% of voters versus **Ruto's** 39%;

11 Jul 2022 **Nairobi (Kenya)** *The East African*. Kenya and **Uganda** have filed complaints to the **East African Business Council** over a law that has raised import taxes on goods from non-**East African Community (EAC)** countries to 35%;

10 Jul 2022 **Nairobi (Kenya)** *Bloomberg*. Kenya's four presidential contenders – **United Democratic Alliance's William Ruto**, **Azimio la Umoja's Raila Odinga**, **Agano's Mwaure Waihiga** and the **Roots Party's George Wajackoyah** –pledge to uphold peace and refrain from hate speech or insults during campaigning before the 9 August elections;

7 Jul 2022 **Nairobi (Kenya)** *Kenyan.co.ke*. Speaking during a plenary session, some **Ugandan** members of parliament question President **Yoweri Museveni's** preparation to cushion Ugandans from the high cost of living in case **Kenya's** elections are marred by violence and disrupt the supply chains in the region;

7 Jul 2022 **Nairobi (Kenya)** *The East African*. Kenya freezes \$52m spread in 62 bank accounts belonging to **Nigerian** start-up **Flutterwave** and four Kenyans on suspicions that they are proceeds of card fraud and money laundering;

5 Jul 2022 **Nairobi (Kenya)** *The East African*. Heads of state and government from the eight member countries of the **Inter-Governmental Authority on Development (IGAD)** will convene in **Nairobi** for the 39th extraordinary meeting;

3 Jul 2022 **Nairobi (Kenya)** *The East African*. **Mombasa** has reclaimed its island status on Kenya's coast following the completion and opening of the **Makupa** bridge and the dredging of the causeway, in compliance with **United Nations Educational, Scientific and Cultural Organization (UNESCO)** standards;

3 Jul 2022 **Nairobi (Kenya)** *The East African*. The entry of President **Uhuru Kenyatta's** brother, **Muhoho Kenyatta**, to the regional lobby **East African Business Council (EABC)**, raises both hope and fear that the persistent trade disputes among **East African Community (EAC)** partner states could end or increase;

1 Jul 2022 **Nairobi (Kenya)** *Business Daily Africa*. The **Port of Mombasa** is facing a new economic threat from **South Sudan**, which reportedly plans to transfer business to the **Djibouti** route, which will deny Kenya revenue on 1.1 million tonnes of cargo that the facility handles annually;

30 Jun 2022 **Nairobi (Kenya)** *Bloomberg*. Kenyan inflation is at a five-year high of 7.9%, breaching **Central Bank of Kenya (CBK)** inflation targets of 2.5% to 7.5%;

30 Jun 2022 **Nairobi (Kenya)** *United States Embassy in Nairobi*. The **United States (US)** embassy in **Nairobi** announces the approval of \$345m through the US **President's Emergency Plan for AIDS Relief program (PEPFAR)** to support the Kenyan HIV response, to be allocated through the **PEPFAR Country Operational Plan (COP) 2022** and implemented from 1 October through 30 September 2023;

30 Jun 2022 **Nairobi (Kenya)** *Bloomberg*. Deputy president **William Ruto** dismisses comments by President **Uhuru Kenyatta** that **Russia's** invasion of **Ukraine** is partly to blame for higher living costs, vowing to boost farming if he wins the presidency on 9 August;

28 Jun 2022 **Nairobi (Kenya)** *SABC*. Kenya has surpassed **South Africa** to become **Africa's** top exporter of avocados, and is currently the world's third-largest producer of avocados, its leading export fruit;

28 Jun 2022 **Nairobi (Kenya)** *Business Daily Africa*. Kenya's state-owned **National Oil Corporation (NOC)** will start shipping fuel from **Saudi Arabia** from August, at lower prices than the global rates in the latest push by the government to lower pump prices;

28 Jun 2022 **Nairobi (Kenya)** *Moody's Investors Service*. **United States (US)**-based bond credit rating house **Moody's Investors Service** lists Kenya among several **African** countries that will face problems refinancing loans as bonds mature over the next decade;

27 Jun 2022 **Nairobi (Kenya)** *The East African*. Health minister **Mutahi Kagwe** flags off 19 Kenyan nurses who have been recruited to work in the **United Kingdom (UK)** in terms of a bilateral agreement signed by President **Uhuru Kenyatta** and UK prime minister **Boris Johnson** in July 2021;

27 Jun 2022 **Nairobi (Kenya)** *Bloomberg*. The **International Monetary Fund (IMF)** has delayed providing Kenya with a KSh 28 billion (\$238m) loan, part of a \$2.34 billion extended credit facility and extended fund facility agreed with the IMF in April 2021 for budget support;

26 Jun 2022 **Nairobi (Kenya)** *Africa News*. Kenya's deputy president and presidential candidate **William Ruto** has said he will deport **Chinese** nationals who perform jobs that could be done by Kenyans, if he is elected in August;

23 Jun 2022 **Nairobi (Kenya)** *Business Daily Africa*. Information and technology minister **Joe Macheru** says mobile phone users will soon pay reduced tariffs for calling a different network in a neighbouring country as part of an initiative to boost integration and modernisation seeking to scrap roaming charges.

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)