

AFRICA RISK CONSULTING

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Flaring political tensions and the prospect of arrests of vice-president William Ruto's cabinet secretary allies raise the risk of Ruto allies disrupting President Uhuru Kenyatta's (2013-present) final term legislative programme. Kenyatta has lambasted ethnic Kikuyu MPs who support Ruto while Ruto has claimed that ethnic Kikuyu cabinet secretaries have threatened to kill him. The directorate of public prosecutions is expected to announce a series of arrests at cabinet secretary level in the coming weeks. A political overtone has already been placed on this. Popular perception is that this is aimed at weakening Ruto's prospects in 2022, rather than corruption. Kenya's largest ever budget is presented to parliament with KSh13 trillion (\$127.29 billion). The budget deficit is a significant increase of KSh31 billion (\$304m) from the 2018/2019 budget. Diplomats have estimated a third of the budget is lost to corruption. Central Bank of Kenya governor Patrick Nguni Njoroge is approved for a second four-year term. A KSh1,000 (\$9.79) note ceases to be legal tender in October as the war on corruption and money laundering intensifies.

Political tensions mount...

There has been further escalation in tensions between President **Uhuru Kenyatta** (2013-present) and deputy president **William Ruto** as the succession issue continues to infiltrate day-to-day politics well in advance of the 2022 polls. Flaring political tensions, and the prospect of arrests in the Ruto camp over the latest corruption case, place at risk Kenyatta's legislative programme during his final term.

The most recent spike in tensions follows a verbal attack against ethnic **Kikuyu** members of parliament – known as the **Tanga Tanga** – who support Ruto's 2022 presidential bid. Addressing a meeting of the national convention of independent churches, known to some locally as **Chiromo** churches, that attract the grassroots support among ethnic Kikuyus, Kenyatta reportedly “*launched a tirade never seen before against the Tanga-Tanga MPs supporting the DP.*”¹

There is now widespread acknowledgement that Ruto's accession to the presidency is not going to be a shoe-in and that the deputy president can no longer be sure of Kenyatta's support for his election to the presidency. This directly contradicts the ruling **Jubilee** party's promise in two previous election campaigns that President Kenyatta's two terms would be followed by deputy president Ruto's two terms. Kenyatta's handshake peace with opposition stalwart **Raila Odinga** is testament to this, too. Around the time of the rapprochement with Odinga, Kenyatta intimated that the 2022 election season would herald a “*surprise*”².

In addition to Kenyatta's machinations against Ruto, **Kirinyaga** governor **Anne Waiguru** has indicated that that she has received two offers to be a running mate in the next election representing the 10 counties that make up the traditional home of the Kikuyu, the **Mount Kenya** region. Meanwhile on 24 June, the deputy president – a **Kalenjin** – is reported to have complained to the director of criminal investigations that ethnic Kikuyu cabinet secretaries had threatened to and were plotting to kill him.

¹ ARC source, senior political analyst, Nairobi

² Business source, Nairobi

“People are raising the question as to whether this tension is a good thing? It is not the time to be hostile to his deputy at this time and it raises questions as to whether this is just grandstanding. What is certain is that it does not reflect the mood of the country. This is the political elite fighting among themselves.”³

There is a strong likelihood that this hostility will move into parliament and disrupt the legislative programme. It is in parliament where Ruto’s numbers are strong. Both the leader of government business in the national assembly and the leader in the senate are William Ruto allies – as are the heads of several ministries. If tensions escalate between president and deputy president, Ruto has the ability to turn the two remaining years of Uhuru Kenyatta’s term into a lame duck presidency. Tensions may also push Ruto-supporting grandees of the Jubilee Party such as secretary general **Raphael Tuju** into resignations.

The Italian job...

Tensions will escalate further if, as widely anticipated, President Uhuru Kenyatta’s anti-corruption ‘crusade’ results in arrests of cabinet secretaries including, notably, that of finance minister **Henry Rotich**.

Despite the independence of the Directorate of Public Prosecutions (DPP), the president’s “*war on corruption*” is perceived to be aimed at weakening Ruto’s support and prospects as he moves towards the presidency in 2022. Although both the DPP and the Director of Criminal Intelligence (DCI) that are leading the investigation into corruption are widely respected, the idea has taken root that cabinet secretaries (ministers) who will face arrest will come from William Ruto’s team. The DPP returned from the **United States (US)** and announced that that his team has tied up many loose ends in the investigation into the dam corruption case reported in *ARC Briefing Kenya* February 2019. Sources in Kenya state that these arrests are “*likely in the next couple of months*”.

By way of a reminder, four cabinet ministers are reportedly involved in a grand heist of public funds of up to KSh4 billion (\$39.16m). The cabinet secretaries are among corrupt senior government officials who are believed to be at the heart of a scam in which the treasury wired KSh6.3 billion (\$61.69m), 10% of the cost of building two dams, to **Italy**-based construction conglomerate **CMC di Ravenna** in **Milan (Italy)** in 2017. However, the DCI said KSh4 billion (\$39.17m) was re-routed to a bank in **London (United Kingdom)** and soon after to another bank in the **Nairobi** suburb of **Westlands**. The story emerged when CMC di Ravenna filed for liquidation, claiming that kickbacks to Kenya’s government officials had brought it to the point of bankruptcy.

International pressure – which has included a newspaper campaign signed by 26 diplomatic missions in Kenya outlining the impact of corruption on society – has largely failed to curb corruption, which remains rife. According to local diplomats, an estimated one third of the annual budget is lost to corruption.

Budget set at KSh13 trillion - the biggest in the country’s history

It is in this context of unchecked corruption, and only the promise of arrests, that the annual budget for the fiscal year 2019/2020 was presented to parliament. It is already infamous in that it is the biggest budget in the country’s history at KSh13 trillion (\$127.29 billion). The budget’s main themes were presented as:

- To improve the business environment for micro, small and medium-sized businesses to create jobs;
- Prudent and efficient spending to curb misuse of public funds;
- Domestic resources to fund priority projects;
- Reduce fiscal deficit to stabilise and reduce national debt; and
- Implement reforms to make Kenya more competitive.

³ ARC source, senior political analyst, Nairobi

The revenue collection targets are based on a growth rate of 6.3%, which local sources say is optimistic.

“On paper the economy is growing but retrenchments are high, listed companies are issuing profit warnings, private sector credit expansion is low and banks report that non performing loans have increased and there are signs that manufacturing electricity consumption is falling.”

On the revenue side, the **Kenya Revenue Authority (KRA)** has reported significant shortfalls in the revenue it has collected in the current fiscal year. Moreover several junior KRA officials have been arrested this month for aiding and abetting tax evasion. So, while the government has made an attempt to address the concerns of private sector presentations, notably around the capital gains tax and excise duty, a number of new taxes have been introduced. Sin taxes on alcohol and cigarettes have increased as well as taxes on various commodities.

On the spending side, the main allocations are to President Kenyatta’s **Big Four Agenda**, including:

- Rolling out universal healthcare beyond the piloted counties;
- Affordable housing programmed with the allocation of KSh3 billion (\$29.38m) to the **National Housing Development Fund** and creating a mortgage refinance company with KSh1 billion (\$9.79m);
- Tax rebates on electricity to improve manufacturing and small and medium-sized enterprises (SMEs) and an allocation to irrigation projects, to the **Coffee Cherry Revolving Fund** and to crop diversification.

The national treasury will have to raise KSh607 billion (\$5.94 billion) to finance the budget deficit – an increase on KSh31 billion (\$303.55m) from 2018/2019. Of that, the government expects KSh324 billion (\$3.17 billion) to be raised externally and KSh289 billion (\$2.83 billion) from domestic sources.⁴

“The government is walking a tightrope with 38% of revenues go to debt servicing and 40% of revenues go to wages. Borrowing projections are unrealistic. In the current political environment hard positions are not palatable but what is needed is a fiscal consolidation with a programme of more taxes and serious spending cuts ...”⁵

In a bid to check recurrent spending, the government has introduced new measures, notably:

- No new projects will be launched until existing projects are completed;
- A review of externally funded programmes to realign them with the Big Four Agenda;
- Spending on programmes that are not government priority will be cut;
- Wage and expenses will be curbed in that government recruitment will be restricted, no further extensions will be given to retiring civil servants’ contracts and ghost workers will be rooted out, expenses will be cut by using pre-paid cards for domestic and foreign travel allowances; and
- Government office space leases will be standardised.

Commentators report that while devolution is a drain, the budget did not carry any measures to alter this. Devolution has a significant impact on recurrent spending and is seen as unsustainable. The **Constitution of Kenya, 2010** decrees that 15% of this record-breaking budget is to go to the 47 counties.

“With the new constitution, we rid ourselves of the ‘imperial treasury’, but devolution is a big mess.”⁶

Kenya budget controller **Agnes Odhiambo** has mooted a constitutional reform that would reduce the number of counties to 25. She has raised repeatedly questioned whether the number of counties is

⁴ Kenyan Wall Street, 5 Jun 2019

⁵ Source, business owner, Nairobi

⁶ Source, business owner, Nairobi

sustainable, and whether the size and cost of the new constitutional structures diminish the prospect of the country achieving its development goals. Odihambo has highlighted that Kenya's MPs are overpaid and suggests that politicians should face a salary review linked to their contribution to the economy. While this is problematic and runs counter to the principle of democratic freedom of MPs, it highlights again that Kenyan MPs are among the highest paid in the world and recently voted themselves a monthly housing allowance of KSh250,000 (\$2,447), prompting a slew of legal action to curb their excess.

That said, ARC sources report that they are *"not gloomy"*. Despite endemic corruption, much has been achieved, notably in the service delivery related to Kenyatta's Big Four Agenda – housing, infrastructure, food security and universal healthcare provision. ARC sources particularly note the strides that have been made with universal healthcare. Through collaboration with US healthcare giant GE, new medical equipment has been rolled out to the counties' hospital infrastructure. However, where the roll-out of universal healthcare falls down is in the county governments, which have responsibility for this. Health service delivery is patchy.

*"Again, health sector developments have made a difference, roads have made a difference. Most importantly, developments in the energy sector have made a difference. We are in a drought, rains are short and dams are low, but thanks to developments in renewables and geothermal, there has been no power rationing."*⁷

On a new note

In a widely popular move outside the banking sector, **Central Bank of Kenya** governor **Patrick Njoroge**, an economist and banker, had his four-year term renewed on 6 June.⁸ Njoroge has joined the war on corruption and money laundering in his 1 June announcement that the KSh1,000 (\$9.79) note will cease to be legal tender from 1 October 2019. It is to be replaced with a new note that complies with the constitution, which states that pictures of individuals – such as politicians past and present – cannot be used on Kenyan currency.

The announcement of the new note is in keeping with the perceived integrity that the governor has brought to the central bank. It is a new generation note complete with security features but its introduction is expected to deal a significant blow to corrupt officials, drug barons and money launderers who trade in cash, and avoid taxes by keeping large swathes of cash outside of the banking system. According to central bank guidelines, anyone who has to change up to KSh1m (\$9,800) can do so at any bank, with no requirement to hold an account. Amounts between KSh1-5 million (\$9,800-\$49,000) can be done through any bank where the bearer holds an account, and where people don't have a bank account, at the central bank. Any amounts above KSh5m (\$49,000) need to be changed at the central bank.

Njoroge is expected to continue to intervene in the economy to maintain the US\$-KSh exchange rate at between 100-103. He is soon to introduce measures to remove the interest rate caps that distort market conditions despite parliament's attempts to block it following a recent court case that ruled the rates cap as unconstitutional.

⁷ ARC senior analyst source, Nairobi

⁸ Bloomberg, 6 Jun 2019

Planner

24 Jul 2019 **(Kenya) Central Bank of Kenya** Monetary Policy Committee meeting;
 Aug 2019 **(Kenya) The Star**. National census planned;
 2022 **(Kenya) Daily Nation**. General elections to be held;

Chronology

17 Jun 2019 **Nairobi (Kenya) Citizen**. Parliament blocks an attempt to repeal a cap on commercial lending rates that finance minister **Henry Rotich** said was keeping banks from lending to customers they considered too risky;

17 Jun 2019 **Nairobi (Kenya) Daily Nation**. The individual suspected of contracting **Ebola** is found to be healthy, ending fears that the outbreak has spread across borders;

17 Jun 2019 **Kericho (Kenya) BBC**. Medical authorities report a woman with **Ebola**-like symptoms in **Kenya**, the first reported potential case, which could cause a further spread from the outbreak in the **Democratic Republic of the Congo**;

16 Jun 2019 **Tripoli (Libya) Reuters**. Prime minister, **Fayez al-Serraj** says he will not sit down with rebel leader **Khalifa Hafta** to negotiate an end to the war in **Tripoli**;

11 Jun 2019 **Nairobi (Kenya) Citizen**. **Michael Joseph**, chair of partially state-owned airline **Kenya Airways**, says the airline would be willing for the state to take more ownership of the airline, similar to **United Arab Emirates**-based airline, **Emirates Airline**;

11 Jun 2019 **Nairobi (Kenya) Daily Nation**. **United States**-based research group, the **Institute for Energy Economics and Financial Analysis**, says that electricity from a coal-fired power plant which is still in beginning stages will be 10 times more than planned;

10 Jun 2019 **Nairobi (Kenya) africanews**. Sources say that the government closed its border with **Somalia** and banned all trade in an ongoing diplomatic dispute over a maritime demarcation;

10 Jun 2019 **Nairobi (Kenya) Citizen**. **China's** ambassador to **Kenya**, **Wu Peng**, says China is ready to negotiate a trade deal with the **East African Community**;

10 Jun 2019 **Nairobi (Kenya) Reuters**. Partially state-owned airline **Kenya Airways** plans to double its fleet over five years to challenge regional rivals like **Ethiopian Airlines**;

6 Jun 2019 **Nairobi (Kenya) Citizen**. President **Uhuru Kenyatta** renews the term of **Central Bank of Kenya** governor **Patrick Njoroge** for a further four years;

1 Jun 2019 **Nairobi (Kenya) Reuters**. **Central Bank of Kenya (CBK)** governor **Patrick Njoroge** says the CBK will withdraw an old version of the 1,000 Kenya shilling (\$9.88) banknote to tackle counterfeiting and illicit financial flows;

31 May 2019 **Nairobi (Kenya) Daily Nation**. A high court dismisses charges against deputy chief justice **Philomena Mwilu** after investigators illegally accessed her bank accounts;

30 May 2019 **Nairobi (Kenya) Daily Nation**. The foreign affairs ministry bans unaccompanied luggage on aircraft from **Somalia** and insists on security checks on all planes from Somalia;

28 May 2019 **Nairobi (Kenya) Reuters**. The government negotiates with the **World Bank** for \$750m loan for budgetary support;

27 May 2019 **Nairobi (Kenya) Bloomberg**. **Central Bank of Kenya** governor **Patrick Njoroge** keeps the benchmark interest rate unchanged at 9%;

20 May 2019 **Nairobi (Kenya) africanews**. The government denies **Somalia's** deputy water and

energy minister, **Osman Libah** and senators **Ilyas Ali Hassan** and **Zamzam Dahir** access into **Kenya**;

17 May 2019 **Nairobi (Kenya)** *EWN*. The **Eldoret High Court** finds former President **Daniel arap Moi** guilty of land grabbing and orders him to pay \$10m to the rightful owners of a property he sold;

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