

AFRICA RISK CONSULTING

Kenya Monthly Briefing December 2023

Kenya Summary 12 December 2023

The Central Bank of Kenya (CBK) on 5 December shocks the country by unexpectedly hiking interest rates by 200 basis points to 12.5%, its largest hike since 2011. The high court on 4 December suspends the sale of shares in 11 state-owned firms after a petition by opposition leader Raila Odinga's party, Orange Democratic Movement (ODM). The suspension halts President William Ruto's (2022-present) efforts to kick-start a privatisation programme that stalled 15 years ago. The high court on 28 November also issues orders against the enforcement of the new social housing tax. Kenya signs agreements for seven green projects on the sidelines of COP28.

Central bank shocks with largest rate hike in more than a decade...

The **Central Bank of Kenya (CBK)** on 5 December unexpectedly hiked interest rates for the second time since governor **Kamau Thugge** assumed office in June, citing the need to support the country's struggling shilling.¹ Thugge noted that the CBK's **Monetary Policy Committee (MPC)** decided to increase the rate by 200 basis points to 12.5%, its largest hike since 2011, because there is a need to adjust the monetary stance to address the pressure on the exchange rate and "mitigate second-round effects including from global prices".²

The shilling has depreciated by almost 20% this year against the **United States (US)** dollar, making it one of the worst-performing currencies on the continent as investors baulk at the country's potential repayment of a \$2 billion Eurobond in June.³ The shilling has weakened despite Kenya receiving additional financial support of \$938m from the **International Monetary Fund (IMF)** in November to strengthen reserves.⁴ Kenya's interest rate ensures that it has some of the highest real interest rates in Africa and also bucks the trend of the top central banks from **South Africa** and **Nigeria** which have recently put a pause on their rate increases.⁵

Thugge also revealed that Kenya expects to receive between \$1.25 billion and \$1.5 billion from the **World Bank** in January and as much as \$500m from the **World Bank Development Policy Operation**, which will help the country "deal with the issue of the Eurobonds" and inject much-needed liquidity into the financial system and reduce domestic borrowing.⁶ It is hoped that once the new external funding arrives in January, the shilling will strengthen and inflation will reduce. Kenya's consumer price inflation slowed marginally to 6.8% in November from 6.9% in October, however, the cost of imported food staples and key commodities such as oil have become more expensive due to the strength of the dollar.⁷ The MPC also noted that the exchange rate has continued exerting pressure on domestic prices for goods, which has led to rising costs of living and reduced purchasing power.⁸ For now, investors are likely to interpret the interest hike as helpful in curbing inflation and could also reassure them about the government's commitment to macro stability.

¹ Central Bank of Kenya, 5 Dec 2023

² Central Bank of Kenya, 5 Dec 2023

³ Business Day Nigeria, 6 Dec 2023

⁴ Bloomberg, 5 Dec 2023

⁵ Business Day Nigeria, 6 Dec 2023

⁶ Central Bank of Kenya, 5 Dec 2023

⁷ Business Day Nigeria, 6 Dec 2023; Bloomberg, 5 Dec 2023

⁸ Business Day Nigeria, 6 Dec 2023

Kenya court suspends sale of state firms after opposition petition...

The high court on 4 December suspended the sale of shares in 11 state-owned firms after a petition by opposition leader **Raila Odinga's** party, **Orange Democratic Movement (ODM)**, blocking President **William Ruto's** (2022-present) efforts to kick-start a privatisation programme that stalled 15 years ago after the government offered shares in local telecommunications firm **Safaricom**.⁹ Treasury cabinet secretary **Njuguna Ndung'u** announced on 27 November that the treasury had started the process of selling the shares to raise billions in shillings and free up funds the government directs into supporting some of their operations each year, some of which are loss-making.¹⁰ Some of the companies earmarked for privatisation included **Kenyatta International Convention Centre, National Oil Corp. of Kenya, Kenya Pipeline Co.** and **New Kenya Co-operative Creameries**.¹¹

The sale was also in line with a pledge the Ruto's government made to the IMF earlier this year to reduce government debt, with government rewriting privatisation laws this year to expedite the process as part of reforms agreed with the IMF. Kenya entered an IMF economic program in 2021 that could unlock around \$4.4 billion but is dependent on several economic reforms to improve macroeconomic stability and restore confidence and access to global bond markets.¹² Ruto therefore announced in early December that his government is seeking to divest from 35 companies through the **Nairobi Securities Exchange** or outright sales.¹³ The president also said that his advisors are also reviewing 100 other entities to decide how much the government should offload.¹⁴

ODM argued in its court petition that the sale of the shares should be subject to a public referendum due to the strategic importance of the parastatals, which have a combined assets value of KSh 200 billion (\$1.31 billion).¹⁵ The party argued that they should only be privatised with the consent of the Kenyan people because they form a part of the country's sovereign wealth and have significant cultural and strategic importance.¹⁶ High court judge **Chacha Mwita** ruled that ODM's challenge raised substantial constitutional and legal issues of public importance that necessitate critical examination and consideration by the court. Mwita suspended implementation of section 21(1) of the **Privatisation Act 2023** and any decisions under this section until 6 February 2024.¹⁷

The court also instructed ODM to immediately deliver their petition and the court's ruling documents to national assembly speaker **Moses Wetang'ula**, attorney-general, **Justin Muturi**, and Ndung'u.¹⁸ By law, respondents have five days to file their responses, and the highlighting of submissions will be done on 6 February.¹⁹ The high court ruling is a major setback for the Ruto administration, which needs to push through the sale of some state assets to meet its obligations to the IMF and unlock the much-needed funding. The government has not shown any indication that it will abandon this fight, and it looks like it will continue pushing to achieve its objectives.

...and rules that housing levy is unconstitutional

Despite ruling that nearly all new taxes implemented by the Ruto administration were legal, the high court on 28 November issued orders against the enforcement of the new social housing tax.²⁰ The court temporarily blocked the deduction of a 1.5% housing levy on worker's gross monthly salaries,

⁹ The East African, 28 Nov 2023; Bloomberg, 27 Nov 2023

¹⁰ The East African, 28 Nov 2023

¹¹ Bloomberg, 27 Nov 2023

¹² Bloomberg, 27 Nov 2023

¹³ Bloomberg, 27 Nov 2023

¹⁴ Bloomberg, 27 Nov 2023

¹⁵ Nation, 5 Dec 2023

¹⁶ The Star, 4 Dec 2023

¹⁷ High Court Ruling, 4 Dec 2023

¹⁸ Nation, 5 Dec 2023

¹⁹ The Star, 4 Dec 2023

²⁰ The East African, 2 Dec 2023

which will be matched by employees.²¹ The ruling is yet another major blow to Ruto's mission to push through his bottom-up economic agenda, which seeks to generate jobs and fire up the economy by focusing on boosting agriculture, small businesses and information and communication technology, and delivering access to universal health care and affordable homes.²² The high court judge, **David Majanja**, declared that the housing levy is "*discriminatory and unfair*" because it only applies to Kenyans with formal jobs and not the informal sector.²³ However, the court's three-judge panel ruled that the **Kenya Revenue Agency (KRA)** can continue collecting the tax pending an appeal to be filed by the government on 10 January.²⁴ In a welcome development for the government, the court ruled that the doubling of value-added tax on fuel to 16% and the 5% point increase in the personal income tax of the highest earning individuals were properly implemented.²⁵

The case was one of nearly a dozen filed at the high court to challenge the constitutionality of the government's new taxes, which seek to raise an additional KSh 211 billion (\$1.38 billion) in the current financial year through June.²⁶ Housing principal secretary, **Charles Hinga**, said earlier in November that the housing levy has raised KSh 16.24 billion (\$105.9m) in the four months to October.²⁷ Kenya's new controversial taxes are of particular interest to investors who are monitoring the country's debt burden and its ability to repay its \$2 billion in Eurobonds due in June 2024.²⁸ Kenya currently spends more than half of its tax revenues on servicing its debt. The ruling poses an additional risk to the country's budget, which has already seen its first-quarter tax collection dropping by 11% below the target. Therefore, it is expected that the government will fiercely appeal the court ruling in a bid to revive Ruto's economic plans.

Kenya signs deals worth \$4.48 billion to develop green projects...

Kenya signed agreements for seven green projects on the sideline of **COP28** which took place in **Dubai (United Arab Emirates)** from 30 November to 12 December.²⁹ The agreements are expected to provide Kenya with additional energy security beyond the use of fossil fuels and importantly stop its dependence on imported fertiliser.³⁰ The deals seven deals signed include:

- A \$600m data centre to be built in **Olkaria (Great Rift Valley)** which will be powered by green geothermal energy in partnership with the clouding services firm **EcoCloud**;
- A \$1.5 billion green fertiliser project to be carried out in partnership with **Australian** transition-focused firm **Fortescue Future Industries**;
- \$200m **Clean Energy Supply Chain (CESC)** initiative;
- A \$1 billion geothermal project to be built in **Suswa (Narok County)** in collaboration with the **Indonesian** government through the Indonesian renewable energy company **Pertamina Geothermal Energy**;
- A \$110 million geothermal project for 35MW at **Menengai (Nakuru County)** with the **South African**-based leading independent energy producer, **Globeleq**;
- Kenya's **Geothermal Development Co.** and the UAE's **AMEA Power** to invest \$800m in the local **Paka Geothermal Project**;
- The Kenyan development finance institution, **Kenya Development Corp**, and the **United Kingdom**-based privately owned strategic investment group, **United Green**, to establish a

²¹ The East African, 2 Dec 2023

²² The East African, 2 Dec 2023; Bloomberg, 28 Nov 2023

²³ Kenyan High Court, 28 Nov 2023

²⁴ Kenyan High Court, 28 Nov 2023

²⁵ Kenyan High Court, 28 Nov 2023

²⁶ Bloomberg, 28 Nov 2023

²⁷ Bloomberg, 28 Nov 2023

²⁸ Bloomberg, 28 Nov 2023

²⁹ Nation, 3 Dec 2023; Bloomberg 2 Dec 2023

³⁰ The Star, 2 Dec 2023

\$270m sustainable agricultural project on 15,000 hectares of land in the **Lake Basin** region.³¹

Ruto, who has a PhD in plant ecology and has been called 'Africa's Self-Appointed Climate Champion' by the **United States (US)** media house **Bloomberg**, is pushing for Africa to become a "green powerhouse" by 2030.³² This will be much easier for Kenya to achieve in comparison to other African countries as its grid is already 92% renewable and Ruto intends to push it to 100% by 2030.³³ The domestic and international community has applauded Ruto for his commitment to climate change.

African stakeholders have also thanked Ruto for helping to build momentum around the continent's demands for clean energy financing ahead of COP28. Ruto has also earned the sympathetic ear of Western leaders, such as **German** chancellor **Olaf Scholz**, because of his focus on investment opportunities rather than aid or compensation.³⁴ However, the challenge going forward for Ruto is to ensure that he delivers on his climate promises, many of which are considered ambitious.

Things to watch out for in 2024...

While the high court has added a challenge to Ruto's planned economic revival, a stream of taxes has already been passed and in 2024 it will become clear if this will lead to any necessary improvement in healthcare or education, as is the intention. Kenya's June 2024 Eurobond payment will also dominate economic developments in the first half of the year, with Ruto needing to work to not only allay fears that Kenya will meet its repayment but working on how he will do this following the delay in the sale of state-owned entities which could delay financing from the IMF. Politically, Ruto has become more and more unpopular, however, the opposition is also not faring well. Citizens are growing increasingly disillusioned with Odinga's popularity especially after talks between Odinga led **Azimio la Umoja** coalition and **Kenya Kwanza** coalition made no gains in addressing the plight of ordinary citizens, promoting the belief that the Azimio coalition will get a new leader in 2024. Alongside economic concerns, Kenya is also facing increasing climate-related risks which have exposed the government's unpreparedness. The COP28 deals have shown Ruto's political will to address this, but as mentioned, implementation is now required, and quickly to avoid the World Bank's forecast that Kenya could lose up to 7.25% of economic output by 2050 if action against climate change isn't taken.

Planner

10 Jan 2023 **(Kenya)** Deadline by which Government must appeal housing levy unconstitutional ruling;

Jan 2023 (Kenya) Kenya to receive \$1.25 billion to \$1.5 billion from the **World Bank** and as much as \$500m from the **World Bank Development Policy Operation**;

14 – 15 Feb 2024 **Nairobi (Kenya)** 6th **Africa Tech Summit**;

21 – 23 May 2024 **Nairobi (Kenya)** **International Energy Agency (IEA)** 9th annual global conference on energy efficiency;

2 – 5 Apr 2024 **Nairobi (Kenya)** Connected Africa ICT and digital economy summit 2024;

8 – 10 Apr 2024 **Nairobi (Kenya)** 5th Africa Women Summit;

24 – 25 Apr 2024 **Nairobi (Kenya)** **American Chamber of Commerce (AmCham)** business summit;

³¹ The Star, 2 Dec 2023; Bloomberg 2 Dec 2023

³² Bloomberg 2 Dec 2023

³³ Bloomberg 2 Dec 2023

³⁴ Bloomberg 2 Dec 2023

27 – 31 May 2024 **Nairobi (Kenya) African Development Bank Group** annual meeting;
 16 – 21 Jul 2024 **Nairobi (Kenya) Kenya Geothermal Congress 2024**;
 2025 **Lamu (Kenya)** Expected commencement of **LAPSSET Corridor Programme** construction of standard gauge railway (SGR) linking Lamu port to **Ethiopia** and **South Sudan**;

Chronology

11 Dec 2023 **Nairobi (Kenya) Bloomberg**. Kenya is working on a schedule for potential rotational blackouts to protect the power transmission network against overloading;

10 Dec 2023 **Nairobi (Kenya) AP**. A power blackout hits Kenya at 8 pm, with transport minister **Kipchumba Murkomen** stating shortly after that government is making a formal request to the police to investigate possible acts of sabotage and coverup;

10 Dec 2023 **Nairobi (Kenya) The Sunday Standard**. Kenyan banks have reportedly begun aggressively raising lending rates, with interest charges potentially reaching 30% in the coming months, the highest in two decades;

8 Dec 2023 **Nairobi (Kenya) The East African**. Kenya, **Somalia** and **Ethiopia** are grappling with heavy rainfall that has caused flooding in the latest devastating climate disaster to strike the region after a record drought;

7 Dec 2023 **Nairobi (Kenya) Anadolu Agency**. Government announces its intention to send 1,500 casual farm labourers to **Israel** as part of a broader effort to foster collaboration between the two countries in the agricultural sector;

5 Dec 2023 **Nairobi (Kenya) Anadolu Agency**. **India's** prime minister, **Narendra Modi**, says India will provide a \$250m financial credit line to Kenya for the modernisation of its agriculture sector;

5 Dec 2023 **Nairobi (Kenya) Reuters**. **Stanbic Bank Kenya Purchasing Managers' Index (PMI)** falls to 45.8 in November from 46.2 in October, signalling a third straight month of contraction of private sector activity;

4 Dec 2023 **Nairobi (Kenya) Bloomberg**. **James Mwangi**, the group managing director and CEO of financial services holding company, **Equity Group Holdings**, says that the weakness in the Kenyan shilling seems "to have reached the peak";

4 Dec 2023 **Nairobi (Kenya) The East African**. A first group of around 100 Kenyan soldiers from the **East African Community Regional Force (EACRF)** leaves from the **Democratic Republic of Congo** bound for Nairobi, as the regional peacekeeping force exists the country;

2 Dec 2023 **Nairobi (Kenya) Bloomberg**. President **William Ruto** says Kenya is weighing selling sovereign green bonds and debt-for-nature swap deals to fund climate projects;

1 Dec 2023 **Nairobi (Kenya) MSN**. **European** aeronautical manufacturer **Airbus**, which is developing high-altitude, solar-powered drones that offer communications services, says it plans to build its first hub in Kenya as it looks to begin commercial operations;

30 Nov 2023 **Nairobi (Kenya) Further Africa**. Treasury secretary **Njuguna Ndung'u** says that Kenya has dropped plans to tap international capital markets this fiscal year due to the high cost of dollar debt;

29 Nov 2023 **Nairobi (Kenya)** *The Bangkok Post*. Internal security and national administration secretary **Raymond Omollo**, says the ongoing **El Nino** floods have so far killed 120 people, with several counties put on high alert;

29 Nov 2023 **Nairobi (Kenya)** *The Africa Report*. Opposition leader **Raila Odinga** says his coalition **Azimio la Umoja** has approved the final report from the **National Dialogue Committee** but says there are still reservations as key issues such as high cost of living was not addressed;

29 Nov 2023 **Nairobi (Kenya)** *Anadolu Agency*. Authorities confirm widespread flooding has displaced over 89,000 people and killed at least 120, up from the initial toll of 76;

26 Nov 2023 **Nairobi (Kenya)** *Daily Nation*. State-owned **Kenya Power** is seeking to transfer power transmission assets valued at \$460.52m to the **Kenya Electricity Transmission Company** in a bid to improve its cash-flow position;

24 Nov 2023 **Nairobi (Kenya)** *Treasury*. Stocks in Kenya's biggest bank by assets, **KCB Group Plc**, are lagging far behind its peers on the **Nairobi Securities Exchange** due to the lender's painful efforts to reduce its pile of non-performing loans;

23 Nov 2023 **Nairobi (Kenya)** *Daily Nation*. Treasury expenditure disclosures indicate Kenya spent \$471.82m on interest for outstanding **Chinese** loans in the first quarter of the 2023/2024 financial year;

21 Nov 2023 **Nairobi (Kenya)** *The East African*. Fuel and electricity prices are set to increase following submitted proposed changes to the **Energy Act 2019** which would double the **Energy and Petroleum Regulatory Authority's (Epra)** levy to a maximum of 1% from its current 0.5% to help support Epra's operations;

20 Nov 2023 **Nairobi (Kenya)** *Reuters*. **World Bank** forecasts that it will provide Kenya with \$12 billion over the next three years, aimed at alleviating economic challenges and financial strains;

18 Nov 2023 **Nairobi (Kenya)** *Reuters*. **Kenya Railways** closes all cargo services and limits passenger services following floods and landslides impacting the railway line between Nairobi and **Mombasa**;

18 Nov 2023 **Nairobi (Kenya)** *Nation*. President **William Ruto** says agreements with **Saudi Arabia** and the **United Arab Emirates (UAE)** will take effect from next month and prevent any increases in fuel prices.

About Africa Risk Consulting:

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Getting in touch

Please contact us by email info@africariskconsulting.com or call + 44 (0) 20 7078 4080

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