

AFRICA RISK CONSULTING

Kenya Monthly Briefing July 2024

Kenya Summary 29 July 2024

President William Ruto (2022-present) confirms in a 26 June letter to national assembly speaker Moses Wetang'ula that he has withdrawn his support for the Finance Bill 2024. Ruto's decision follows anti-government protests in which at least 50 people died. The Kenyan National Bureau of Statistics (KNBS) data shows that the economy grew at its slowest pace in more than a year in the first quarter of 2024 and may face additional pressure from floods and deadly protests. In a positive development, the KNBS says on 28 June that annual inflation eased to 4.6% in June, an almost four-year low. The United States (US) rating agency Moody's Ratings downgrades Kenya's credit rating one level to Caa1 from B3, lowering Kenya's credit further into junk status.

Ruto withdraws tax bill after deadly protests and fires cabinet...

President **William Ruto** (2022-present) confirmed in a 26 June letter to national assembly speaker **Moses Wetang'ula**, that he had withdrawn his support for the **Finance Bill 2024** and called on parliamentarians to scrap it. Ruto's decision came after anti-government protests in which at least 50 people died.¹ Ruto also called on the national assembly to reconsider the bill and recommended that all clauses be deleted. The bill proposed taxes on several goods including bread, sanitary pads, wheelchair tyres, motor vehicles and mobile money transactions. It was first introduced as a way to reduce the budget deficit by 3.3% and raise an additional KSh 346 billion (\$2.7 billion) in the fiscal year that began on 1 July (see ARC Briefing Kenya May 2024).²

The bill was also aimed at accessing more funding from the **International Monetary Fund (IMF)**. Kenya's national treasury will now have to slash expenditure by KSh 177 billion (\$1.3 billion) and increase borrowings (see below). Ruto's letter to Wetang'ula followed a televised address in which he said he conceded to Kenyans demands and would not sign the bill.³

A day earlier on 25 June, lawmakers in Ruto's ruling **Kenya Kwanza** rammed through the tax bill after dropping some of the more controversial levies, such as a 16% levy on bread.⁴ Following the passage of the legislation, protesters broke through police barricades and stormed the national assembly, prompting police to fire live rounds, killing five people.⁵ In a defiant speech hours later, Ruto said Kenya experienced an "*unprecedented attack on its democracy*", called the actions by protesters treasonous and said he would deploy the military to quell further violence.⁶ This was despite his predecessor, **Uhuru Kenyatta** (2013-2022), and civil society leaders asking him to talk to protesters.⁷

Bowing to major pressure and to pacify the protestors, Ruto undertook promised austerity measures, including a leaner travel budget for himself, cut funding to his wife's office, a pledge to sign into law a bill to set up a new elections body, stopping an annual salary increase for state workers, reducing allocations for hospitality, vehicle purchases and renovations and proposed an engagement with the young people of the country.⁸

¹ NTV, 26 Jun 2024; Daily Nation 26 Jun 2024

² NTV, 26 Jun 2024; Daily Nation 26 Jun 2024

³ The Citizen, 26 Jun 2024

⁴ The Citizen, 26 Jun 2024

⁵ Al Jazeera, 25 Jun 2024

⁶ Financial Times, 25 Jun 2024

⁷ Bloomberg, 26 Jun 2024

⁸ The Citizen, 26 Jun 2024

However, with these concessions falling to quell protests, Ruto made his boldest move yet to appease protestors by dismissing his entire cabinet on 11 July. Notably, Ruto did not dismiss deputy president **Rigathi Gachagua** and prime cabinet secretary and foreign affairs cabinet secretary **Musalia Mudavadi**.⁹ Ruto noted that bureaucrats would run the government in the interim and its operations continue as usual. Ruto also promised to consult widely before appointing a new “*broad-based*” administration that will help him deal with key issues, including creating jobs, tackling high levels of debt and eradicating poverty.¹⁰

Ruto began the process of appointing a new cabinet on 19 July.¹¹ Ruto nominated 11 people to his cabinet, with six of them from the past administration that he fired a week prior and four members of the main opposition party, the **Orange Democratic Movement (ODM)**. ODM is led by political veteran **Raila Odinga**, whom Ruto defeated in elections in 2022.¹² Key opposition appointees include ODM chairman **John Mbadi Ngo’ongo** to lead the finance ministry, parliament minority leader **James Opiyo Wandayi** as energy minister and former governor of **Mombasa** county, **Ali Hassan Joho**, as mining minister.¹³ Mbadi, who replaces **Njuguna Ndung’u**, a former central bank governor who held the post for less than two years, will now be tasked with coming up with a plan to boost government revenue. Mbadi, an accountant by profession, is the finance chief at a local nonprofit and became a lawmaker in 2008.¹⁴

The appointment of opposition members fulfils another pledge by Ruto to form a so-called government of national unity to garner wider public support. The last time Kenya had a cabinet composed of members from both the ruling party and opposition was in 2007 after a highly contentious election in which more than 1,100 Kenyans were killed and 350,000 displaced.¹⁵ While power sharing in the past has helped resolve political conflict, there are doubts about whether this time around it will quell unrest. This was also the view of political scientist **Nic Cheeseman**:

*“It is not the opposition that needs to be placated this time, but the people - and the protesters on the streets have already made it clear that they do not want to see another elite reshuffle”.*¹⁶

This sentiment has been expressed by several youth leaders in Kenya, including a prominent anti-government activist **Boniface Mwangi**, who wrote on X (previously **Twitter**) on 24 July, that “*Zakayo has appointed corrupt people to fight corruption*”.¹⁷ *Zakayo* is the Swahili name for **Zacchaeus**, the corrupt tax collector in the Bible that protesters have used as a nickname for Ruto. Mwangi also said that Odinga “*is a traitor*” who has “*betrayed*” the people of Kenya by forming “*a government of national looting with Zakayo*”.¹⁸

Bringing the opposition into government shows that Ruto is taking the protest seriously and collaboration has the potential to ensure broader buy-in for reforms, but it also risks watering down his reform agenda. However, Ruto retains a tight hold on the ruling party and any internal revolt appears unlikely, although the inclusion of opposition officials in the cabinet could stoke internal dissent.

Despite Ruto revoking the proposed revenue-raising taxes, firing almost his whole cabinet and signalling that he would pivot to a government that will include members of opposition parties, the protests have continued. While the demonstrators were initially opposed to Ruto’s plan to introduce a range of new taxes, now that those proposals have since been scrapped, the demonstrators are now

⁹ Financial Times, 11 Jul 2024

¹⁰ Financial Times, 11 Jul 2024

¹¹ Al Jazeera, 24 Jul 2024

¹² Al Jazeera, 24 Jul 2024

¹³ Al Jazeera, 24 Jul 2024

¹⁴ Bloomberg, 24 Jun 2024

¹⁵ Bloomberg, 24 Jun 2024

¹⁶ Bloomberg, 24 Jun 2024

¹⁷ Boniface Mwangi X Account, 24 Jul 2024

¹⁸ Boniface Mwangi X Account, 24 Jul 2024

calling for him to step down and for state corruption and wasteful government expenditure to be ended.¹⁹

There is also a widely held view among Kenyans that Ruto and his administration have “*surrendered*” to both the IMF and the World Bank and ignored the feelings of the people, particularly the youth who led the protests.²⁰ To this point, protestors were seen holding signs saying “*Kenya is not IMF’s lab rat*”.²¹

Since assuming the presidency on his campaign slogan of a ‘hustler nation’, Kenyans have endured economic hardship with the **Federation of Kenya Employers** estimating that unemployment is as high as 67%.²² Kenya agreed to an economic reform program with the IMF in 2021 and Ruto’s government has committed to reducing the budget deficit, increasing tax collection and curbing wasteful government spending in exchange for funding.

Until there’s a new government in place, it is unclear how Ruto’s relationship with the IMF will change, but treasury principal secretary **Chris Kiptoo** said on 22 July that Kenya plans to seek fresh financing from the global lender as the government deals with the economic fallout from the deadly protests.²³ IMF spokesperson **Julie Kozack** also said on 11 July that the IMF is committed to working with Kenya and is confident it can find a “*balanced path forward*” for its economy.²⁴ Kenya’s debt equates to the equivalent of two-thirds of GDP, and the IMF considers it at high risk of distress.

Economy expands at slowest pace in more than a year as inflation cools

The **Kenyan National Bureau of Statistics (KNBS)** said on 3 July that Kenya’s economy grew at its slowest pace in more than a year in the first quarter of 2024 and may face additional pressure from floods and deadly protests that have shuttered businesses.²⁵ KNBS data indicates that GDP increased by 5% in the first quarter, which is lower than the 5.1% recorded in the fourth quarter of 2023.²⁶ This was due to a contraction in the mining sector’s output for the second consecutive quarter and agriculture, the economy’s mainstay, expanded at a slower pace of 6.1% compared to 6.2% in the three months through December.²⁷

KNBS attributed the agricultural sector’s still decent performance to favourable weather conditions and government interventions that enhanced production.²⁸ However, heavy floods that killed almost 300 Kenyans in the second quarter of this year destroyed large swatches of croplands and curtailed production will likely curtail growth.²⁹ The ongoing violent protests over the government’s plans to raise taxes are also expected to impact growth.

In a positive development, KNBS said on 28 June that annual inflation eased to an almost four-year low in June as the increase in food prices was more benign, providing some relief to consumers.³⁰ Annual inflation reached 4.6% in June, down from 5.1% reported in May, with prices increasing by 0.4% in June.³¹ The price increase was primarily driven by a rise in the prices of commodities under transport (rose 7.7% in June from 8.1% in May), food and non-alcoholic beverages (rose 5.6% from 6.2%) and housing, water, electricity, gas and other fuels (rose 3.1% from 4.4% in May).³² These three divisions account for over 57% of the weights of the KNBS’ 13 broad categories.

¹⁹ Reuters, 24 Jun 2024

²⁰ Bloomberg, 22 Jun 2024

²¹ Bloomberg, 22 Jul 2024

²² Bloomberg, 13 Jul 2024

²³ Bloomberg, 22 Jul 2024

²⁴ IMF, 11 Jul 2024

²⁵ KNBS, 3 Jul 2024

²⁶ KNBS, 3 Jul 2024

²⁷ KNBS, 3 Jul 2024

²⁸ KNBS, 3 Jul 2024

²⁹ KNBS, 3 Jul 2024

³⁰ KNBS, 28 Jun 2024

³¹ KNBS, 28 Jun 2024

³² The Star, 1 Jul 2024

Overall, the inflation statistics will be seen as encouraging for the **Central Bank of Kenya (CBK) Monetary Policy Committee (MPC)** which has raised the interest rate by 600 basis points to 13% since May 2022 to bring the inflation rate to the 5% midpoint of the central bank's target range.³³ While there may have been hope of a rate cut at the MPC's August meeting, with the additional risks spurred by the tax bill being withdrawn and the protests impacting businesses, the MPC may opt to hold the interest rate.

Moody's cuts Kenya's sovereign rating deeper into junk territory...

US-based credit rating agency **Moody's Ratings** on 8 July downgraded Kenya's credit rating one level to Caa1 from B3, lowering Kenya's credit further into junk status following the deadly protests which forced the government to withdraw the proposed tax bill.³⁴ Moody's also maintained its negative outlook. The rating reflects Kenya's *"significantly diminished capacity to implement revenue-based fiscal consolidation that would improve debt affordability and place debt on a downward trend"*.³⁵

The government's decision to withdraw the tax bill confirmed a wider fiscal deficit for the current budget year and the guarantee of lower revenue.³⁶ Moody's also said that it does not expect Kenya's government to introduce major revenue-raising measures in the foreseeable future due to heightened social tensions.³⁷

Kiptoo said on 13 July that the government will now have to reduce expenditure by 1.9% or KSh 177 billion (\$1.3 billion) to KSh 3.87 trillion (\$29.9 billion) in the period through June 2025 and borrow the balance.³⁸ Kiptoo's confirmation that the government will cut spending in the 2024/2025 budget will also see the fiscal deficit widen to 3.6% of GDP in a revised budget.³⁹ The government had previously projected a budget deficit of 3.3% of GDP. Total revenue is also expected to decline to 17.5% of GDP from an earlier estimate of 18.5%.⁴⁰

As a consequence of the cuts, Moody's also forecast that Kenya's fiscal deficit will continue narrowing through spending cuts but at *"a more gradual pace than previously"* expected and its debt affordability will remain weak for a longer period. Other rating agencies could soon follow Moody's lead, impacting Kenya's ability to borrow.

Planner

Jul 2024 **Nairobi (Kenya)** Vetting of new cabinet to begin;
 28-30 Aug 2024 **Nairobi (Kenya)** Transform Africa Summit;
 4-6 Sep 2024 **Nairobi (Kenya)** Africa Fintech Summit;
 10-12 Sep 2024 **Nairobi (Kenya)** Africa Business Summit;
 Apr 2025 **Nairobi (Kenya)** Eighth review of **International Monetary Fund (IMF)** programmes;
 2025 **Lamu (Kenya)** Expected commencement of **LAPSSET Corridor Programme** construction of standard gauge railway (SGR) linking Lamu port to **Ethiopia** and **South Sudan**;

Chronology

³³ Yahoo Finance, 28 Jun 2024

³⁴ Moody's Ratings, 8 Jul 2024

³⁵ Moody's Ratings, 8 Jul 2024

³⁶ Bloomberg, 9 Jul 2024

³⁷ Moody's Ratings, 8 Jul 2024

³⁸ Reuters, 15 Jul 2024

³⁹ Reuters, 15 Jul 2024

⁴⁰ Bloomberg, 13 Jul 2024

29 Jul 2024 **Nairobi (Kenya)** *Kenyans*. Kenyan government formally files to support veteran opposition leader **Raila Odinga's** candidature to become the **African Union** chairperson;

26 Jul 2024 **Nairobi (Kenya)** *Bloomberg*. The **Central Bank of Kenya (CBK)** begins a sale of two infrastructure bonds expected to boost dollar inflows by KSh 50 billion (\$377m);

25 Jul 2024 **Nairobi (Kenya)** *Bloomberg*. **India's Adani Airport Holdings** submits a proposal to invest in **Jomo Kenyatta International Airport**, saying the airport needs \$1.85 billion in investment;

24 Jul 2024 **Nairobi (Kenya)** *Nation*. President **William Ruto** appoints four members of the main opposition **Orange Democratic Movement (ODM)** to his cabinet as protests continue across the country;

23 Jul 2024 **Nairobi (Kenya)** *AP News*. Police fire tear gas as pro and anti-government protestors who clashed in Nairobi;

22 Jul 2024 **Nairobi (Kenya)** *Daily Nation*. **Ethics and Anti-Corruption Commission (EACC)** spokesperson **Eric Ngumbi** says the EACC is close to completing investigations into high-level bribery allegations, with former transport minister **Michael Kamau** and top roads authority officials heading the list of 18 Kenyans whose names appeared in **Israeli** investigations into contractor **SBI International**;

19 Jul 2024 **Nairobi (Kenya)** *Daily Nation*. National carrier **Kenya Airways** warns customers to expect delays after a global cyber outage disrupted its booking system;

18 Jul 2024 **Nairobi (Kenya)** *BBC*. High court suspends a decision by police to ban protests in Nairobi;

16 Jul 2024 **Nairobi (Kenya)** *Reuters*. At least one person is killed in renewed anti-government protests across Kenya;

15 Jul 2024 **Nairobi (Kenya)** *Reuters*. Treasury confirms government plans to cut spending in the 2024/2025 budget by 1.9% and widen the fiscal deficit to 3.6% of GDP in a revised budget;

15 Jul 2024 **Nairobi (Kenya)** *Business Daily*. Treasury disclosures indicate Kenya is considering a new **Eurobond** in 2026;

13 Jul 2024 **Nairobi (Kenya)** *RFI*. Police watchdog, the **Independent Police Oversight Authority (IPOA)**, launches an inquiry into possible police involvement after eight mutilated bodies are found dumped in a rubbish tip;

13 Jul 2024 **Nairobi (Kenya)** *Nation*. Inspector-general of police **Japhet Koome** resigns after facing criticism over the police's reaction to protests last month which left 39 people dead;

11 Jul 2024 **Nairobi (Kenya)** *Financial Times*. President **William Ruto** dismisses his entire cabinet except for his deputy, **Rigathi Gachagua**, and prime cabinet secretary and foreign affairs cabinet secretary **Musalia Mudavadi**;

11 Jul 2024 **Dar es Salaam (Tanzania)** *The Citizen*. Local company **Amsons Group** makes a \$180m bid to acquire **Kenya's Bamburi Cement** in what could be one of the largest takeover deals in **East Africa**;

8 Jul 2024 **Nairobi (Kenya)** *Reuters*. **United States**-headquartered **Moody's** cuts Kenya's sovereign rating to "Caa1" from "B3", deeper into junk territory, citing diminished capacity to implement a fiscal consolidation strategy to contain its debt burden;

6 Jul 2024 **Nairobi (Kenya)** *Times Lives*. President **William Ruto** announces proposed spending cuts and additional borrowing following his decision to withdraw the finance bill that was aimed at raising revenue for the budget deficit, projected at \$2.7 billion;

3 Jul 2024 **Nairobi (Kenya)** *BBC*. **Salaries and Remuneration Commission**

(SRC) chairperson **Lyn Mengich** says the commission will freeze salary increases for state officers, including members of parliament (MPs) and cabinet, due to “*the current realities of the economy*”;

2 Jul 2024 **Nairobi (Kenya)** *Anadolu Agency*. Interior cabinet secretary **Kithure**

Kindiki pledges to end violence and looting stemming from anti-government protests;

2 Jul 2024 **Nairobi (Kenya)** *Reuters*. Riot police are patrolling Nairobi amid calls for more protests to demand President **William Ruto** step down following last week’s deadly protests;

30 Jun 2024 **Nairobi (Kenya)** *Bloomberg*. President **William Ruto** defends his decision to deploy the military to suppress protests last week that left at least 24 people dead;

29 Jun 2024 **Nairobi (Kenya)** *AFP*. **United States**-headquartered **Human Rights Watch (HRW)** says at least 30 people died in protests last week over the **Finance Bill 2024**, adding that security forces shot directly into crowds;

27 Jun 2024 **Nairobi (Kenya)** *SF Group*. Police fire tear gas to disperse protestors as demonstrations continue across the capital despite President **William Ruto** pulling the controversial finance bill;

26 Jun 2024 **Nairobi (Kenya)** *Africa Confidential*. President **William Ruto** announces he will not sign into law the **Finance Bill 2024** following days of protests that have reportedly resulted in 20 deaths;

25 Jun 2024 **Nairobi (Kenya)** *Financial Times*. Addressing the nation, President **William Ruto** says Kenya experienced an “*unprecedented attack on its democracy*” after protestors demonstrating against proposed tax increases stormed parliament;

25 Jun 2024 **Nairobi (Kenya)** *Al Jazeera*. Police fire live rounds at protestors trying to storm parliament, killing at least five people;

25 Jun 2024 **Nairobi (Kenya)** *Reuters*. The first police officers assigned to the international force Kenya is leading in **Haiti** arrive in the country;

23 Jun 2024 **Nairobi (Kenya)** *Reuters*. Protestors against the **Finance Bill 2024** heckle President **William Ruto** and other government officials attending a church event;

20 Jun 2024 **Nairobi (Kenya)** *BBC*. Demonstrations continue across the country against the **Finance Bill 2024** which parliament is debating;

18 Jun 2024 **Nairobi (Kenya)** *Reuters*. A parliamentary panel recommends that the government scrap several proposed new taxes under its **Finance Bill 2024** including the proposed 16% VAT on bread and a new 2.5% motor vehicle tax;

18 Jun 2024 **Nairobi (Kenya)** *EWN*. Police arrest 335 protestors who gathered around parliament to demonstrate against the **Finance Bill 2024**;

18 Jun 2024 **Nairobi (Kenya)** *SF Group*. Protests are expected across Nairobi today against the **Finance Bill 2024**;

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)

Africa Risk Consulting (ARC) Pty Ltd expressly forbids the collection of information and content from ARC Briefing as data to train generative artificial intelligence models.

© Africa Risk Consulting (ARC)