

## AFRICA RISK CONSULTING

### Kenya Monthly Briefing February 2019

#### Kenya Summary 27 February 2019

*President Uhuru Kenyatta's (2013-present) anti-corruption credentials are challenged as details emerge in bankruptcy filings of Italy-based construction conglomerate CMC di Ravenna of four cabinet ministers' involvement in a grand heist of \$40m in public funds. A gang is facing trial for successfully impersonating Kenyatta's voice and demanding large sums of cash from senior business people, including Sameer Group head Naushad Merali who paid KSh80 m (\$800,000). Transparency International ranks Kenya as among the worst in the East African Community for corruption. Movements of al Shabaab suicide bomber Mahir Khalid Riziki reveal intelligence-gathering weaknesses in Kenya, Tanzania and Somalia. The economic outlook for 2019, 2020 and 2021 is bright as Kenya contemplates fresh borrowing of \$1 billion.*

#### Italian bankruptcy reveals cabinet-level corruption in Kenya

President Uhuru Kenyatta's (2013-present) claim that he has made the war on corruption the pillar of his administration appeared hollow as details emerge of four cabinet ministers' involvement in a grand heist of public funds of up to KSh4 billion (\$40m).<sup>1</sup> The cabinet secretaries (ministers) are among corrupt senior government officials who are believed to be at the heart of the scam. The treasury wired KSh6.3 billion (\$63m), 10% of the cost of building two dams, to **Italy**-based construction conglomerate **CMC di Ravenna** in **Milan** (Italy) in 2017. However, Kenya's **Directorate of Criminal Investigations (DCI)** said KSh4 billion (\$40m) was re-routed to a bank in **London (United Kingdom)** and soon after to another bank in the **Nairobi** suburb of **Westlands**.<sup>2</sup> DCI director **George Kinoti** claims he has details of the bank account numbers used in the transfer. 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.<sup>3</sup>

This is the latest in a series of scandals unfolding in February.

- The public risks losing billions of shillings in a stalled construction project of three mega dams in the **Rift Valley** worth more than KSh90 billion (\$900m).<sup>4</sup> Last year Kenya's treasury paid KSh4.9 billion (\$49m) in down payments for the design of the **Arror** multi-purpose dam in **Elgeyo Marakwet County**.
- State-owned **Kenya Airways** is embroiled in a contentious takeover of **Jomo Kenyatta International Airport (JKIA)** in what is described as "a murky deal";<sup>5</sup>
- Kenya is planning to import 11 used diesel trains from **Spain** in a KSh10 billion (\$100m) plan for a commuter train service and high capacity buses in Nairobi, raising suspicions on how they will operate given findings of a report that questions their low capacity, weaker engines, and in Nairobi's single-track railway system.<sup>6</sup>

<sup>1</sup> The Standard, 26 Feb 2019

<sup>2</sup> The Sunday Standard, 24 Feb 2019

<sup>3</sup> The Sunday Standard, 24 Feb 2019

<sup>4</sup> Daily Nation, 25 Feb 2019

<sup>5</sup> The Star, 20 Feb 2019

<sup>6</sup> Daily Nation, 24 Feb 2019

## Is Uhuru Kenyatta's anti-corruption campaign serious?

Kenya's local media is awash with "leaked" sources reporting "in confidence" of a stormy cabinet meeting at the president's residence, **State House**, on 21 February, at which a reportedly furious Uhuru Kenyatta "tongue-lashed" his cabinet over corruption claims.<sup>7</sup> He warned of "impending turbulence", suggesting further cabinet sackings. Using language charged with religious imagery, Kenyatta reportedly restated his commitment to his anti-corruption "crusade" and claimed he would not spare anyone. In 2015, Kenyatta sacked ministers and named them in parliament for their involvement in various corruption scandals. **Felix Koskei** (agriculture), **Charity Ngilu** (lands), **David Chirchir** (energy), **Kazungu Kambi** (labour) and **Michael Kamau** (transport and infrastructure) lost their jobs. **Anne Waiguru** (devolution) subsequently resigned, reportedly on doctor's advice, though the **National Youth Service** in her portfolio of responsibility was also embroiled in KSh791m (\$7.9m) scam.<sup>8</sup>

The day after the cabinet meeting, the interior minister and Kenyatta's *de facto* prime minister, **Fred Matiangi**, held a closed door meeting with Chief Justice **David Maraga**, attorney general **Kihara Kariuki**, cabinet secretaries **Farida Karoney** (lands) and **James Macharia** (transport), solicitor general **Kennedy Ogeto**, and interior permanent secretary **Kibicho Karanja** to explore how to unlock KSh30 billion (\$300m) worth of project funding tied up in the Italian bankruptcy litigation. The likely prolonged liquidation procedures would delay delivery on a number of national government projects including the following:

- **Olkaria-Lessos-Kisumu** electricity transmission line at KSh18.2 billion (\$180m);
- **Mariakani** substation at KSh3 billion (\$30m);
- **Ethiopia-Kenya** transmission line at KSh62.85 billion (\$628.1m);
- **Mwea** irrigation development project (KSh9.4 billion)(\$94m);
- **Kisumu** water supply project (KSh3.66 billion)(\$36.6m);
- **Lessos-Tororo** transmission line (KSh8.8 billion)(\$88m); and
- **Yatta** Dam water supply project (KSh6.5 billion)(\$65m).<sup>9</sup>

## Local criminal gang incident hints that grand corruption is the norm...

This most recent scandal raises doubts about Kenyatta's desire to end the scourge of corruption. ARC sources report that corruption is widespread and has infected every sphere of operations including business-to business-relationships. Sources report that lucrative banking, legal, auditing and consulting contracts are frequently withheld pending payment of inducements to individuals. Kenyan business people speak of Kenya's political elite behaving as "attack dogs", obstructing projects pending payments and seeking free carries in private sector business ventures, and of senior politicians with ownership stakes in private companies that win big infrastructure projects. Kenya's sphere of 'clean business' is ever narrowing.

In a related incident that gives a clear insight into conditions that businesses face, seven members of a gang are facing trial for successfully impersonating President Uhuru Kenyatta's voice and demanding of senior business people large quantities of cash. In one case **Sameer Group** chair **Naushad Merali** was conned out of KSh80m (\$800,000). The gang is reportedly well connected to the presidency and vice president. The fraudsters – apparently in collusion with government officials and police officers – forge documents on formal letterheads and invite their targets to government offices to sign fake documents. The gang leader, **Gilbert Kirunja**, reportedly called Merali about a tender and convinced

<sup>7</sup> Standard Digital, 24 Feb 2019

<sup>8</sup> Standard Digital, 24 Feb 2019

<sup>9</sup> Daily Active Kenya, 23 Feb 2019

him that he was President Kenyatta. The fraud came when Kirunja asked for a small favour – some KSh10m (\$100,000) in advance for facilitation.

*“Police said ‘the president agreed’ to send some men from State House to the businessman’s office. After 30 minutes the sharply dressed, well-spoken men in luxury vehicles arrived at Merali’s offices on **Mombasa Road** to receive the president’s message. They were handed KSh10m (\$100,000) in cash and drove off. The same group returned two more times on other days and received more cash, the total KSh80m (\$800,000).”<sup>10</sup>*

According to an ARC source,

*“What is interesting is that the businesses invariably paid the cash without questioning – let alone reporting it to the police. This suggests that both the cash demands and payment are commonplace.”*

Despite the president’s fulminating, these incidents underline again that Kenya is among the worst performing countries in the **East African Community (EAC)** for corruption. Kenya and **Uganda** together stand out for their contribution to a largely gloomy picture for corruption in **sub-Saharan Africa** and to a very poor performance on **Transparency International’s Corruption Perceptions Index (CPI)** for 2018. The index, designed to give a sense of public sector corruption, rates countries on a scale of zero (highly corrupt) to 100 (very clean).

<b>TI CPI Rankings 2018: Regional comparison (EAC)</b>					
	<b>Burundi</b>	<b>Kenya</b>	<b>Rwanda</b>	<b>Tanzania</b>	<b>Uganda</b>
<b>Ranking</b>	170/180	144/180	48/180	99/180	149/180
<b>Score</b>	17	27	56	36	26

Only eight of 49 countries score more than 43 out of 100: one is **Rwanda**, which posts a healthy 56/100. Kenya bumps along near the bottom with Uganda, posting a very poor rating of 27 out of 100 and ranking 144<sup>th</sup> out of 180 countries measured. Despite commitments from **African** leaders in declaring 2018 as the **African Year of Anti-Corruption**, this has yet to translate into concrete progress.

A newspaper columnist wrote in Kenya’s weekend papers, *“Corruption is becoming a killer disease in this country.”* ARC sources say corruption is well entrenched and reaching pandemic proportions, describing it as a *“blight on Kenya”* and on normal day-to-day business, *“considering the extraordinary performance of the Kenyan economy”*, and lamenting how much better it would perform if it were able to operate at real cost rather than a cost-plus-corruption.<sup>11</sup>

**Corruption facilitates terrorism ...**

In addition to the high cost of doing business that corruption in Kenya represents, security sources say it contributes directly to the ease with which **Somalia**-based Islamist group **al Shabaab** is able to operate in Kenya.<sup>12</sup> Al Shabaab has spread itself across the **East African** region with comparative impunity.

Some 25 people, including four al Shabaab attackers, were killed when the Islamist extremist group launched an attack in Nairobi on 15 January (see *ARC Briefing Kenya January 2019*). One assailant was

<sup>10</sup> Star Kenya 26 Feb 2019  
<sup>11</sup> ARC Security consultant, local journalist  
<sup>12</sup> Kenya private security operative

reportedly captured and another is believed to have escaped while the security forces carried out waves of arrests.

The suicide bomber who blew himself up outside a Nairobi hotel last month launching an attack was well-known to Kenyan police. **Mahir Khalid Riziki** was recruited at a local mosque and joined a local cell that assassinated police in his home town of **Mombasa**. His mosque in the coastal Kenyan city funneled recruits to al Shabaab. Riziki took part in the killings of at least two officers in October 2014. The next month, police raided the mosque. One officer died after his throat was cut during the operation. A suspected militant was killed and 13 others arrested. Riziki was there but fled to Tanzania where he was lost to the Kenyan intelligence services. At some point he entered Somalia, where the militants control territory that government forces cannot enter, making it hard to track him.

Riziki's years as a fugitive shed light on the difficulties of tracking militant suspects across East Africa at a time when **al Qaeda**-linked al Shabaab has broadened its pool of recruits and carries out more attacks in other countries. Riziki's journey spanned at least two East African nations that share borders with Kenya.<sup>13</sup>

Al-Shabaab claimed the Nairobi operation was a reaction to **United States (US)** air strikes.<sup>14</sup> The Nairobi attack was intended to signal the organisation's continuing ability to mount large-scale terror attacks at the same time as conducting its ground war in Somalia. Kenya shares political, economic, and socio-geopolitical links with all the areas in which al Shabaab now operates. The general commanding the **United States Africa Command, Thomas Waldauer**, told the **US Senate Armed Services Committee** on 7 February that US air strikes "*are not going to defeat al Shabaab*". The US has struck hard from the air but the response of the jihadists has always come in the form of suicide bomb attacks in populated areas.

Security sources note that Kenya's security forces learned from the 2013 **Westgate Mall** attack and responded quickly and effectively, which is likely to have saved many lives in last month's attack (see *ARC Briefing Kenya January 2019*). Despite this, security sources say that corruption facilitates porous borders and disrupts intelligence-gathering operations. There is little effective information sharing and follow up because of regional hostilities between Somali, Kenyan and Tanzanian intelligence services. Somali intelligence officials told **Reuters** they usually receive little information from Kenya but claim that they warned Kenya of an imminent attack by four al Shabaab militants. A former senior Somali intelligence official conceded that information sharing "*is not always systematic*" and often depends on personal relationships between officials.

### ... but Kenya's growth is a good news story in the midst of global gloom

Amidst the gloomy global landscape of US insularity, **Brexit** in **Europe** and **Chinese** dominance, Kenya's economy has a bright outlook in 2019, with the most optimistic independent projections of growth sitting at between 6% and 7%.<sup>15</sup> The **World Bank** anticipates that GDP will post 5.7% growth in 2018, rising to 5.8% in 2019 and then to 6% in 2020.<sup>16</sup>

The World Bank notes this growth is dependent on the growth of private debt. Borrowing from private sources has driven external debt up some 17.5% to \$26.7 billion in 2018, to equal nearly 30% of GDP. External debt rose by almost \$4 billion in 2018, with \$2.4 billion coming from private sources, including a \$2 billion sovereign bond in February, and \$1 billion from China, mainly for extending the standard-gauge railway from Nairobi to **Naivasha**. The new loans increased total private debt's share of total external debt to 34.5%. Total government debt including domestic debt increased to \$51.8 billion in 2018 (58% of GDP), from \$44.3 billion in 2017 (54.8% of GDP).

<sup>13</sup> Reuters, The Daily Nation

<sup>14</sup> Radio Andalus via BBC monitor

<sup>15</sup> Africa Confidential, multiple sources

<sup>16</sup> World Bank in Kenya Overview

China's proportion of the private debt is a repeated concern. Some bankers suggest that Kenya could face a similar issue as **Sri Lanka** when it defaulted on the **Hambantota Port** development loan and had to transfer ownership of the facility, plus 15,000 acres of land, to China on a 99-year-lease. Pressure is increasing on the Mombasa port, which has substantial loans from **China Exim Bank**. But **Standard Bank Africa** economist **Razia Khan** says her understanding is that China Exim will be repaid out of port revenues.<sup>17</sup>

Undaunted by critics who claim that its growth statistics have been manipulated to downplay debt levels, Kenya is set to continue its high borrowing campaign with plans to issue Eurobonds worth over \$2 billion this year. Kenya's financial managers say market conditions still favour an increased borrowing strategy, given current trends in international interest rates. However, sources report that the third sovereign bond issue is already mired in controversy as the treasury initially claimed the bond would be allocated to infrastructure when it is actually to help finance the budget deficit and to meet repayment obligations falling due, including the five-year, \$750m portion of the country's debut sovereign bond, which was issued in 2014. The treasury is also considering a new syndicated bank loan of about \$1 billion.

### Planner

6-8 Mar 2019 **Mombasa (Kenya)** *East African Community*. **East African Petroleum Conference and Exhibition**;

27 Mar 2019 **Nairobi (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

27 Feb 2019 **Nairobi (Kenya)** *Reuters* **Italian** construction conglomerate **CMC di Ravenna** files for liquidation in **Rome**, claiming that kickbacks to Kenya's government officials brought it to the point of bankruptcy;

27 Feb 2019 **Nairobi (Kenya)** *Star Kenya* A gang faces trial for successfully impersonating President **Uhuru Kenyatta** and defrauding **Sameer Group** head **Nausha Merali** out of KSh80m (\$800,000).

26 Feb 2019 **Nairobi (Kenya)** *VOA*. **Kenya**-based ride hailing app, **Little Cab**, expands its business to **Tanzania** and **Ghana**;

24 Feb 2019 **Nairobi (Kenya)** *The Sunday Standard* Four cabinet secretaries are believed involved in a KSh6.3 billion (\$63m) scam involving **Italy**-based **CMC di Ravenna**;

23 Feb 2019 **Nairobi (Kenya)** *Bloomberg* A border dispute with **Somalia** has soured diplomatic relations after Kenya accused Somalia of auctioning four oil blocks in an area off their coastlines claimed by both nations;

22 Feb 2019 **Nairobi (Kenya)** *Standard* President **Uhuru Kenyatta** "tongue-lashes" his cabinet over corruption claims and warns of "impending turbulence";

20 Feb 2019 **London (UK)** *EIU ViewsWire* Private lenders send **Kenya's** external debt to 30% of GDP;

17 Feb 2019 **Nairobi (Kenya)** *Reuters*. **Kenya** recalls its ambassador to **Somalia**, **Lucas Tumbo**, after Somalia auctions oil and gas exploration blocks in disputed maritime territory;

<sup>17</sup> Africa Confidential

8 Feb 2019 **Nairobi (Kenya)** *Bloomberg*. **India**-based telecommunications company **Bharti Airtel** agrees to combine its **Kenyan** operations with **Telkom Kenya**, creating the second largest operator in **East Africa**;

4 Feb 2019 **Arusha (Tanzania)** *Construction Review*. Senior manager of the **Tanzania Electric Supply Company (TANESCO)**, **Emmanuel Manirabona**, confirms that TANESCO will connect the **Kenya** and **Tanzania** power lines to the **Southern Africa Power Pool**;

3 Feb 2019 **Nairobi (Kenya)** *The East African*. **Kenya**-based **Indo Power** purchases \$180m of **Tanzanian** raw cashew nuts;

31 Jan 2019 **Nairobi (Kenya)** *Reuters*. **NIC Group** will merge with the **Commercial Bank of Africa** to create the third-largest bank in the region;

28 Jan 2019 **Nairobi (Kenya)** *Reuters*. The **Central Bank of Kenya** keeps the benchmark lending rate at 9% as inflation remains in the target range;

23 Jan 2019 **Nairobi (Kenya)** *Business Day*. The government intends to restrict vehicle imports to newer vehicles by 2021 by boost the domestic automotive sector;

22 Jan 2019 **Nairobi (Kenya)** *Reuters*. **Kenya** plans to talk to lenders regarding a \$2.5 billion **Eurobond** issue;

21 Jan 2019 **Garissa County (Kenya)** *Reuters*. Police reportedly stop a terrorist attack on a **Chinese**-owned construction company, days after an attack in **Nairobi**;

### About Africa Risk Consulting:

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