

AFRICA RISK CONSULTING

Kenya Monthly Briefing January 2020

Kenya Summary 30 January 2020

President Uhuru Kenyatta (2013-present) leads a delegation to the United Kingdom (UK)-Africa Investment Summit in London (UK), where he secures major investment deals worth \$1.69 billion and signs a new memorandum of understanding to collaborate with the UK government on mobilising private finance into Kenyan projects. The Central Bank of Kenya's monetary policy committee (MPC) unexpectedly cuts interest rates to 8.25% from 8.5%. The most serious outbreak of desert locusts in 25 years continues to spread across East Africa, with Kenya's agriculture principal secretary, Hamadi Boga, saying Kenya is struggling to contain the locust swarms because of limited resources, threatening the agriculture sector and food insecurity. Kenya's longstanding security risks increased in 2019 and at the start of 2020 as a result increased terrorist activity. Security risks include terrorist attacks and kidnapping targeting Westerners, and crime, including mugging, car-jacking and armed robbery.

UK-Africa Investment Summit nets \$1.69 billion deals ...

President **Uhuru Kenyatta** (2013-present) led a delegation of politicians and businesspeople to the **United Kingdom (UK)-Africa Investment Summit** in **London** (UK) on 20 January, where he secured major investment deals worth \$1.69 billion and signed a new memorandum of understanding to collaborate with the UK government on mobilising private finance into Kenyan projects.¹ Kenyatta's administration will laud the summit as a triumph but it will be less vocal about its track-record at fulfilling investment projects.

The Kenyan delegation had a lot to show off at the summit and they had the advantage of traditionally strong ties with the host. The delegation urged UK investors to support government's 'Big Four Agenda'² and tap into Kenya's growing economy. They also highlighted the wider opportunities that the **African Continental Free Trade Area** is expected to deliver, which will coincide with Britain's exit from the **European Union**.

Kenya is looking to build upon already close trading relations with the UK at the summit. UK trade commissioner for Africa **Emma Wade-Smith** says \$47 billion worth of trade is already happening between the UK and Africa. In 2018, Kenya exported Sh31 billion (\$307m) worth of goods to the UK with imports valued at \$395m. More than 200 UK-based companies operate in Kenya with over \$3.9 billion invested in daily operations. Stronger trade relations with the UK and more investment will help Kenya to close its high trade gap. The **Kenya National Bureau of Statistics** says the deficit shrank 1.46% to Sh1.05 trillion (\$10.4 billion) in the 11 months through November 2019.

One of the areas where UK expertise is highly sought in Kenya is the energy sector, especially in renewable and green energy. At the investment summit, solar power producer **Globeleq** said it would invest \$59m in establishing a solar farm in the coastal town of **Malindi**. Additionally, and perhaps more notably, Kenyatta rang the bell to begin trading at the **London Stock Exchange (LSE)** on 20 January, as part of the launch of Kenya's first shilling-denominated corporate green bond to be listed in the UK through **Nairobi**-based property developer **Acorn Holdings**, which floated a \$40m bond.³ Acorn also became the first green bond issued in **East Africa** on the **Nairobi Securities Exchange**

¹ Daily Nation, 20 Jan 2020

² A development plan where resources will be dedicated to food, manufacturing, affordable housing and healthcare "to improving the living standards of Kenyans, grow the economy and enhance food security."

³ The East African, 20 Jan 2020.

(NSE). This will open up Kenya to the multimillion-pound UK financial markets and provide UK investors with access to the NSE. The company will help raise funds to build 50,000 environmentally friendly housing units for university students in Nairobi.⁴ Troubled UK-based exploration firm **Tullow Oil** was also listed as having pledged to continue investing \$1.5 billion in oil production in Kenya.⁵

However, a growing power struggle within Kenya's political elite is threatening some major investment projects. An **International Monetary Fund (IMF)** report published on 15 January estimates 500 projects have frozen due to "*non-payment to contractors, insufficient allocation of funds to projects, and litigation cases in court*".⁶ The IMF says Kenya needs to raise around Sh1 trillion (\$10 billion) to complete them. Unpaid bills from the infrastructure department to suppliers and contractors totalled Sh78 billion (\$774m) as of June 2019. Kenyatta's appointment of finance minister **Ukur Yatani** on 14 January may result in better management of investment projects. If not, the next chance will be following a government reshuffle when Kenyatta has to step down when his second five-year term finishes in 2022.

... as CBK lowers central bank rate to 8.25%

The **Central Bank of Kenya's** monetary policy committee (MPC) unexpectedly cut interest rates on 27 January to 8.25% from 8.5%, citing "*well anchored*" inflation expectations and an economy operating "*below its potential level*".⁷ Kenya wants to stimulate growth and lowering the benchmark lending rate by 25 percentage points signals cheaper credit to the economy.

Economic growth slowed to a two-year low of 5.1% in the third quarter, partly due to a drought cutting output in the agriculture sector. Inflation quickened to 5.8% in December and is projected to stay inside the target band of 2.5-7.5%. **Renaissance Capital** economist **Yvonne Mhango** says the accommodative stance implies that the central bank is comfortable with the shilling, which is supported by a sound foreign-exchange reserves buffer and a current-account deficit that is contained.⁸ The shilling was unchanged at 100.9/\$, while the yield on Kenyan Eurobonds due in 2024 rose 11 basis points to 4.81%.

This is the second consecutive cut by the MPC in a row, having reduced it from 9% when it met in November. The rate is now the lowest in more than eight years. The MPC press release said:

*"The committee assessed that the effects of the lowering of the CBR in November 2019 continued to be transmitted in the economy, but also noted that there was room for further accommodative monetary policy to support economic activity."*⁹

An MPC press release says that macroeconomic indices show that the economy is stable and faster growth is projected in 2020.

*"The economy remained resilient in 2019, with data for the third quarter showing that real GDP grew by 5.4 percent in the first three quarters. This growth was supported by macroeconomic stability, growth of MSMEs, and a robust services sector particularly accommodation and restaurant, information and communications technology, and transport and storage. Stronger growth is expected in 2020 supported by, among others, the recovery of the agricultural sector due to the recent interventions by the Government, stronger growth of MSMEs, robust private sector credit growth, continued implementation of the Big 4 agenda and a stable macroeconomic environment."*¹⁰

In regards to inflation, the MPC said:

⁴ The East African, 20 Jan 2020.

⁵ The East African, 27 Jan 2020

⁶ Pulse Live, 17 Jan 2020

⁷ Press Release, CBK MPC, 27 Jan 2020

⁸ Business Day, 27 Jan 2020

⁹ Press Release, CBK MPC, 27 Jan 2020

¹⁰ Press Release, CBK MPC, 27 Jan 2020

“Overall inflation is expected to remain within the target range in the near term due to lower prices of fast-growing food items following the continuing rains, and lower electricity prices. Month-on-month overall inflation remained within the target range in November and December 2019. The inflation rate stood at 5.8 percent in December compared to 5.6 percent in November, mainly reflecting the temporary effects of increases in food prices and transport costs during the festive period.”¹¹

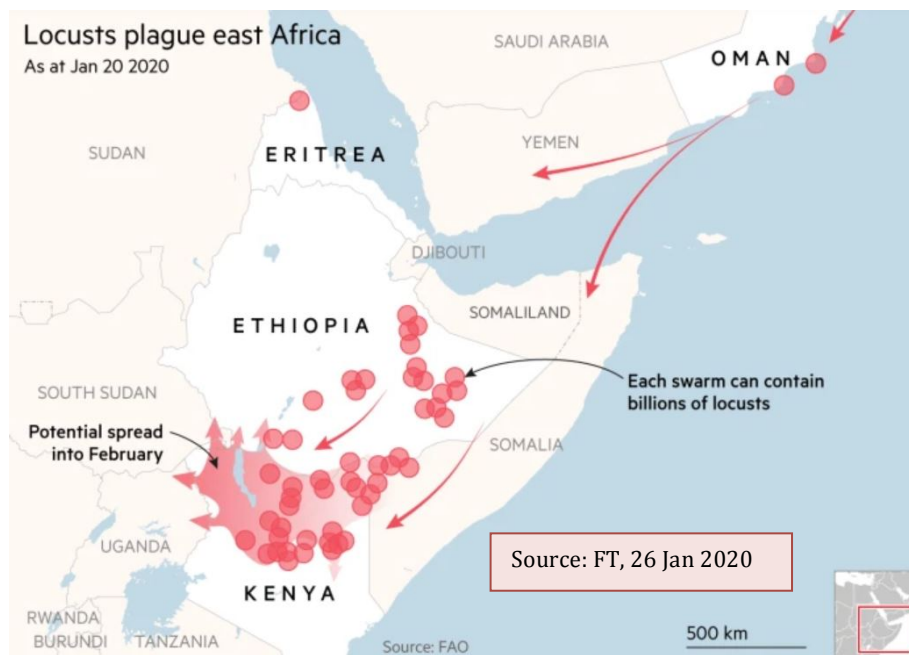
Locust swarms threaten farms

The most serious outbreak of desert locusts in 25 years continues to spread across East Africa, threatening food security and economic prospects. Kenyan agriculture principal secretary **Hamadi Boga** says Kenya is struggling to contain the locust swarms because of limited resources.¹² Kenya's worst locust invasion in 70 years threatens to devastate the agriculture sector and escalate food insecurity in East Africa. Government is spending \$5m to manage the swarms of locust and prevent spreading.

Agriculture cabinet secretary **Peter Munya** has termed the insects a threat to the economy and the sector. Agriculture contributes 26% of Kenya's GDP at Sh2.9 trillion (\$29 billion). Agriculture officials estimate that over 500,000 hectares of pasture and cropland have so far been destroyed by locusts in **Mandera, Marsabit, Wajir, Isiolo, Meru** and **Samburu** counties. The insects have covered more than one million hectares of land in Kenya. Insecurity in north-east Kenya, where the locust swarms are concentrated, has prevented the necessary disaster response.

The **United Nations (UN) Food and Agriculture Organization (FAO)** has escalated the situation to the highest disaster level, leading the agency to put in place a six-month emergency action plan and suggest it will take \$70m to contain the swarms across the region. The FAO had described the infestation as “*significant and extremely dangerous*”, warning of an imminent “*food crisis in months to come*” if control measures are not taken.¹³ FAO director-general **Qu Dongyu** said:

“This has become a situation of international dimensions that threatens the food security of the entire subregion. Authorities in the region have already jump-started control activities, but in



view of the scale and urgency of the threat, additional financial backing from the international donor community is needed so they can access the tools and resources required.”¹⁴

The current outbreak has also affected parts of **Ethiopia, Somalia, Sudan, Djibouti** and **Eritrea**. The Djibouti-headquartered **Intergovernmental Authority on Development (IGAD)** has warned that the swarm could be headed for **South Sudan** and **Uganda**, where authorities are urging

¹¹ 'Press Release', CBK MPC Meeting, 27 Jan 2020

¹² AfricaNews, 23 Jan 2020

¹³ FAO, 20 Jan 2020

¹⁴ FAO, 20 Jan 2020

citizens to stock up on food. In Ethiopia and Somalia, more than 170,000 acres of crops and pasture land had been wiped out by December last year.

Security risks in Kenya

Kenya's longstanding security risks increased in 2019 and at the start of 2020 as a result of increased terrorist activity. Security risks include terrorist attacks and kidnapping targeting Westerners, and crime, including mugging, car-jacking and armed robbery. A Nairobi-based risk consultant said further attacks are likely, particularly targeted at infrastructure projects, as well as Western citizens and assets.¹⁵

There is a high risk of terrorist attacks and kidnappings in Kenya. The main terrorism threat is from extremists linked to **al Shabaab**, which has become more active in Kenya in recent years. An in-country source said there is still a "*very high risk*" in northern Kenya, near the Somali border and in Nairobi, which the source said was "*very tense to say the least at the beginning of January, with police presence noticeably higher*".¹⁶ The risk consultant said al Shabaab, which aims to destabilise the country by destroying infrastructure projects, is likely to continue this preference of "*soft targets with high impact, such as the **Mombasa-Lamu ferry***".¹⁷

Al Shabaab conducted an attack on a military airstrip in **Lamu County** on 5 January, killing three US personnel. Three days later al Shabaab released a public statement '*Kenya Must Take Heed*', stating Al Shabaab's intent to attack tourists, government institutions and military installations. More recently, five terror suspects, three Somali nationals, a **United States (US)** citizen and their Kenyan driver, were arrested on 18 January for allegedly surveying an entertainment establishment in Nairobi.¹⁸ An in-country risk consultant said the al Shabaab attack on 5 January is likely a "*coincidence*" and a way of gaining attention rather than as a direct result of the US airstrike. While already high, Kenya's security situation has not worsened because of the US-Iran tensions.

The US embassy in Nairobi issued a security alert on 7 January warning of "*heightened tensions in the **Middle East** that may result in security risks to US citizens abroad*" in the wake of the assassination of top **Iranian** general **Qassem Soleimani** on 3 January by a US airstrike. The US embassy maintains a 'Level 2' travel advisory for Kenya, urging US citizen to "*exercise increased caution*" in the country.

While Kenya has experienced a number of high-profile terror attacks in recent years, there are signs that it has become more resilient to them. An armed attack at a high-end office and hotel complex in Nairobi in January 2019 showed that Kenyan forces are now able to respond to such an attack efficiently and effectively (see *ARC Briefing Kenya January 2019*). This was a result of the steps President Uhuru Kenyatta took in the wake of the al-Shabaab attack on Nairobi's **Westgate Mall** shopping centre in 2013 to improve security response.

The recent rise in al Shabaab attacks in Kenya and Somalia could lead to African security planners rethinking their counter-terrorism policy. Al Shabaab's increased activity, with several assaults launched in the two countries since December killing at least 130 people, suggests that the strategy of the **African Union Mission in Somalia (Amisom)** and partners such as the US to focus on armed efforts to tame al Shabaab has been ineffective. Amisom is considering reducing its troops in Somalia.¹⁹

Kenya ranks 21st out of 138 globally and 8th out of 44 in **sub-Saharan Africa** for possible terrorist threats, according to the **Institute for Economics and Peace's Global Terrorism Index 2019**, a slight improvement of 2 in the 2018 globally rankings (1st ranking is highest threat and 138th ranking

¹⁵ Source, risk consultant, Kenya

¹⁶ Source, risk consultant, Kenya

¹⁷ Source, risk consultant, Kenya

¹⁸ CNN, 21 Jan 2020

¹⁹ France24, 1 Jun 2019

is least threat).²⁰ The index rates the impact of terrorism on a scale of 10-0 (10 being “very high” and 0 being “no impact”).

Criminality is also a high security risk in Kenya. Kenya ranks 11th out of 54 countries in Africa in the **Global Initiative’s Africa Organised Crime Index 2019** due to its “wide range of significantly influential criminal markets and actors”.²¹ The index scores Kenya relatively well overall in terms of resilience, ranking 13th in Africa and 2nd in East Africa, on account of the efforts being made to combat organised crime, notably in terms of legislation and increases in judicial capacity. The main concern is government corruption and involvement of state officials in criminal markets. Kenya ranks 11th in Africa and 4th in East Africa for criminality. Criminal networks and mafia-style groups collaborate with corrupt state-embedded actors to profit from various criminal markets, such as the illicit narcotics trade, human smuggling and arms trafficking. Arms trafficking is also reported to be a major problem and Kenya is a transit point for weapons being trafficked across borders into conflict zones. The proliferation of weapons is an added concern, given the reported collusion of government officials with militant group al-Shabaab.

Planner

9-10 Mar 2020 **Abidjan (Cote d’Ivoire)** Africa CEO Forum;
 30 Mar-3 Apr 2020 **Nairobi (Kenya)** Annual Summit on Investment Opportunities in Kenya;
 8 Jun 2020 **The Hague (Netherlands) International Court of Justice (ICJ)** hearings for **Maritime Delimitation in the Indian Ocean (Somalia v. Kenya)** case to begin;
 19-21 Aug 2020 **Nairobi (Kenya)** Kenya Financial Services Conference and Expo;
 2022 **(Kenya)** *Daily Nation*. General elections to be held;

Chronology

28 Jan 2020 **Nairobi (Kenya)** *Bloomberg*. A knowledgeable source says **Kenya** and the **United States** are expected to announce negotiations on a free-trade agreement next week during President **Uhuru Kenyatta’s** visit to **Washington**;

28 Jan 2020 **Nairobi (Kenya)** *VOA*. A student is quarantined in **Nairobi** after exhibiting **Coronavirus**-like symptoms, identified through a screening conducted at Nairobi’s **Jomo Kenyatta International Airport**;

27 Jan 2020 **Nairobi (Kenya)** *Daily Nation*. The **Central Bank of Kenya’s** monetary policy committee unexpectedly cuts interest rates to 8.25% from 8.5%, citing sturdy inflation expectations and an economy that is operating below its potential;

23 Jan 2020 **(East Africa)** *Africanews*. The most serious outbreak of desert locusts in 25 years continues to spread across **East Africa**, with **Ugandan** authorities urging citizens to stock up on food and **Kenyan** agriculture principal secretary **Hamadi Boga** saying Kenya is struggling to contain the locust swarms because of limited resources;

23 Jan 2020 **Nairobi (Kenya)** *Daily Nation*. **Kenya Defence Forces** acquires six **MD-530F** helicopters from the **United States (US)** through the **US Foreign Military Sales** programme;

23 Jan 2020 **Nairobi (Kenya)** *Energy Voice*. **France**-based **Total** and **United Kingdom**-based **Tullow Oil** hire **France**-based bank **Natixis** to run the joint sale process for **Blocks 10 BA, 10 BB** and **13T** in the **South Lokichar** basin to reduce their stakes in Kenya’s first oil development;

²⁰ Global Terrorism Index 2019, Institute for Economics and Peace, visionofhumanity.org

²¹ Africa Organised Crime Index 2019, Global Initiative, globalinitiative.net

21 Jan 2020 **Nairobi (Kenya)** *CNN*. A **Nairobi** court allows security agencies to hold five terror suspects, three **Somali** nationals, a **United States** citizen and their Kenyan driver, arrested on 18 January for allegedly surveilling an entertainment establishment in Nairobi;

20 Jan 2020 **London (United Kingdom)** *Daily Nation*. **Kenya's** President **Uhuru Kenyatta** secures major investment deals worth \$1.69 billion in the **UK-Africa Investment Summit in London**;

20 Jan 2020 **London (United Kingdom)** *The East African*. **Kenya** floats a \$40m green bond on the **London Stock Exchange** using **Nairobi**-based property developer **Acorn Holdings**, becoming the first Kenya shilling denominated corporate green bond to be listed in the **United Kingdom**;

17 Jan 2020 **Nairobi (Kenya)** *Daily Nation*. Ministry of finance principal secretary **Julius Muia** says **Kenya** is in advanced talks with the **World Bank** for a "fairly priced" loan of up to \$992m, nearly half of its required external funding this fiscal year;

17 Jan 2020 **East Africa** *The East African*. The **United Nations Food and Agriculture Organisation** says swarms of desert locusts have damaged tens of thousands of hectares of land across **East Africa**, which is damaging regionally economies and threatening food security;

17 Jan 2020 **Nairobi (Kenya)** *Reuters*. **Nigeria**-based lender **Access Bank**, which has assets worth \$16 billion, acquires **Kenya**-based **Transnational Bank** for an undisclosed amount;

17 Jan 2020 **Kampala (Uganda)** *Daily Monitor*. Uganda's ministry of foreign affairs writes to the **Kenyan High Commissioner in Kampala** threatening to reconsider its position on the **East African Community Customs Union Protocol** and impose retaliatory taxes after **Kenya** seized its milk products on their market;

16 Jan 2020 **Nairobi (Kenya)** *Capital Business*. **United Arab Emirates**-backed online ticketing service **QuickBus** launches in **Kenya**, targeting Kenya's long-distance bus operators with routes to western Kenya and the coastal town;

15 Jan 2020 **Nairobi (Kenya)** *Afrik21*. Real estate company **Acorn Holdings** trades its green bond for approximately \$42m on the **Nairobi Securities Exchange**, becoming the first green bond issued in **East Africa**;

14 Jan 2020 **Nairobi (Kenya)** *Reuters*. **Nairobi Securities Exchange** CEO **Geoffrey Odundo** says he expects the removal of a cap on commercial lending rates to spur stocks trading, lifting valuations and attracting new listings;

13 Jan 2020 **Garissa County (Kenya)** *Daily Nation*. A suspected **al-Shabaab** attack on a primary school in **Kamuthe** near the **Somali** border kills three teachers and partially damages a telecommunications mast;

9 Jan 2020 **Nairobi (Kenya)** *Voice of America*. **United States (US) Africa Command (AFRICOM)** general **Stephen Townsend** orders an investigation into the **al-Shabab** attack that killed three US citizens;

8 Jan 2020 **Nairobi (Kenya)** *The Star*. **Iranian Embassy in Kenya** allays fears that escalating tensions between **Iran** and the **United States** may spill over into **Kenya**;

7 Jan 2020 **Garissa county (Kenya)** *Daily Nation*. Police say Islamic militant group **al-Shabaab** attacked telecommunications mast in eastern **Garissa** county killing four children;

7 Jan 2020 **Nairobi (Kenya)** *Coingeek*. Police say they are pursuing an alleged fraudster, **Isaac Muthui**, who is behind a \$27m cryptocurrency scam that lured investors with promises of hefty returns;

6 Jan 2020 **Nanyuki (Kenya)** *Daily Nation*. Three men are arrested for allegedly trying to break

into a **British Army** base in **Nanyuki**, central **Kenya**, hours after an attack on **United States** army base **Camp Simba** by **al-Shabaab**;

5 Jan 2020 **Lamu County (Kenya)** *BBC*. One **United States** military service member and two contractors are killed in an **al-Shabaab** attack on **Camp Simba** military base on **Manda Island**;

1 Jan 2020 **Nairobi (Kenya)** *Daily Nation*. **Kenya National Bureau of Statistics** says the economy grew 5.1% in the third quarter of 2019, a drop from 6.4% in the same period in 2018, and total exports dropped to \$1.45 billion from \$1.5 billion;

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)