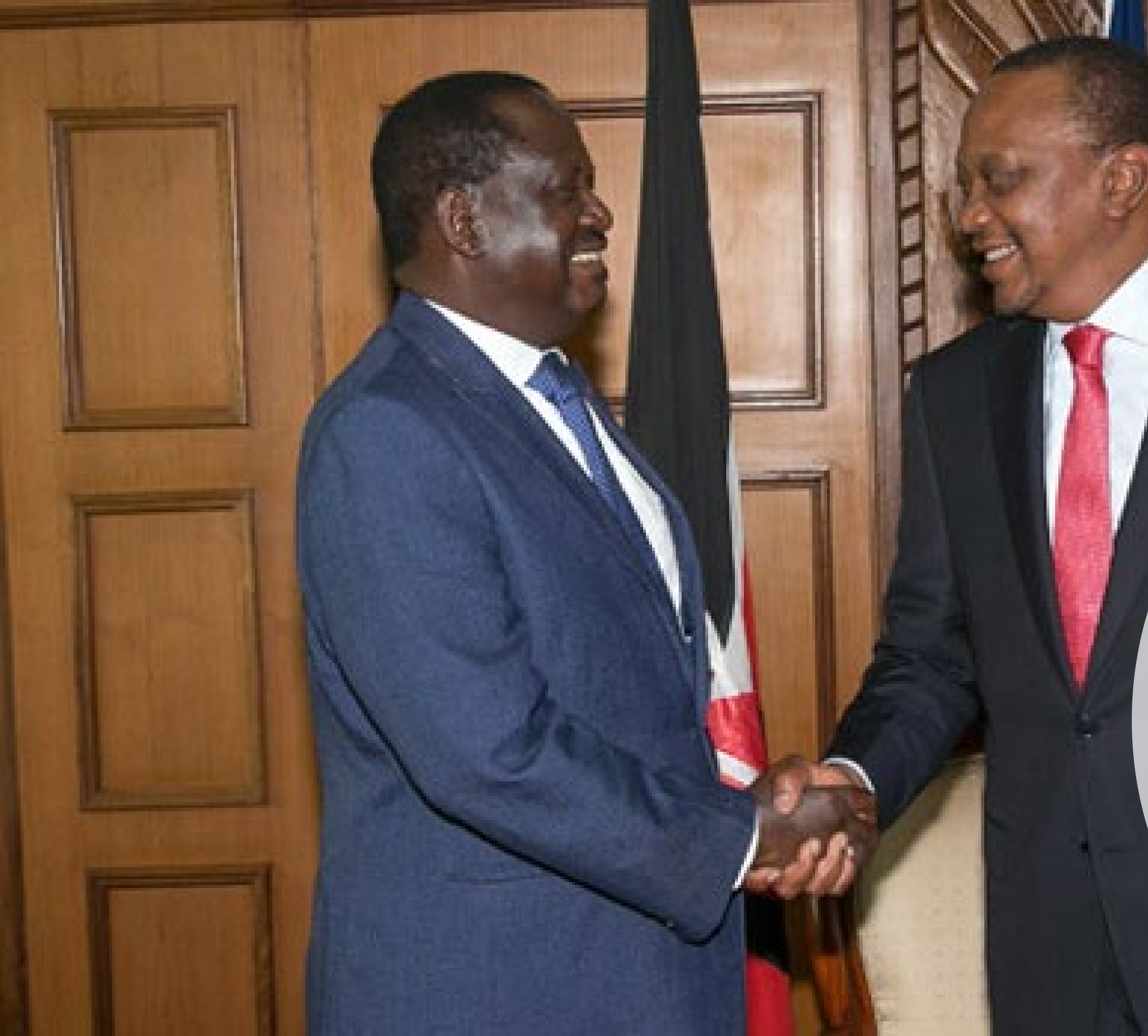

Kenya’s Political Economy Post-the “Handshake”

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Presented at Kenia Seminar, July 5-7, 2019, Weingarten

Presentation Outline

- Introduction: Background to the “Handshake”
- The Political and Economic Impacts of the Handshake
- The Big 4 Agenda
- Kenya’s Major Challenges Today:
    - Runaway Corruption
    - Burden of Foreign Debt
    - Chinese Investment/Invasion?
- Conclusion

Background to the Handshake

Kenya has long history of ethnically mobilized political violence

Disputed general elections have been witnessed since 1997, when Kenya African National Unity (KANU) unleashed terror on citizens

2007 elections plunged Kenya into periods of blood shade and mass killings of innocent Kenyans

Animosity and enmity at peak along different ethnic divides.

2013 general elections bitterly contested by Uhuru Kenyatta of the The National Alliance (TNA) and Raila Odinga of the Coalition of Reforms and Democracy (CORD)

Uhuru winner, Raila disputes citing manipulation of Bio-metric Voter System, goes to Supreme Court, which upholds Uhuru’s election

2017 General Elections

Uhuru Kenyatta (now of Jubilee Alliance) and Raila Odinga (now of National Super Alliance - NASA), again the main contestants

Election widely presumed to have been predetermined since the electoral systems were hacked

Chief Technological Officer Independent and Boundaries Electoral Commission IEBC, Chris Msando, murdered in cold blood, in a plot that seemed an assassination

Uhuru declared winner again

NASA disputes the outcome of the elections, proceeds to Supreme Court again, and successfully sues for the nullification of the elections

2017 General Elections

A second election but boycotted by the NASA coalition on grounds that its “irreducible minimum” conditions not met by IEBC.

Kenyatta garnered 98% of the vote. NASA proceeded back to the Supreme Court, which this time, upholds the election outcome

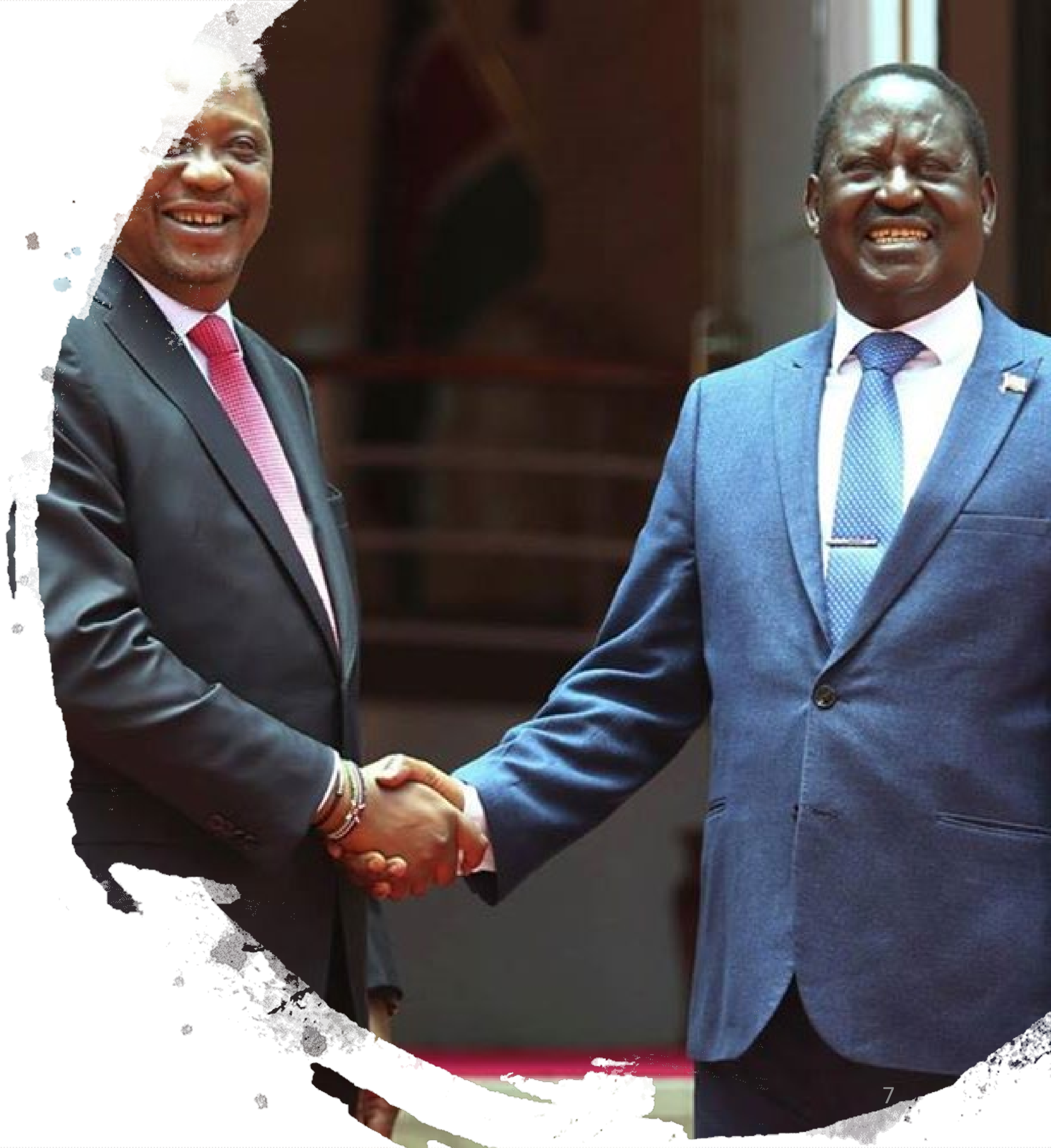
The elections followed by a period of unrest, with mass shootings in opposition areas, in slums and in Kisumu

On January 30, 2018, Raila Odinga is ’sworn in’ as the people’s President, in a move declared to amount to treason by the state

A media black-out as the state tries to stop major TV stations from broadcasting Odinga’s “inauguration”

The Handshake

- 9 March 2018, Kenyans woke to “life-changing” news Raila Odinga, and Uhuru Kenyatta, erstwhile sworn political enemies, had agreed to put their differences aside to unite the country through a symbolic gesture of ”handshake”
- The Handshake a public declaration to cease all hostilities and instead find a common ground in the interest of moving the country forward economically and politically



Positive Effects of the Handshake

- Provided a discursive framework for the construction of a new socio-political order
- Brought hope for a new political dispensation not founded on ethnicity
- Defused political and ethnic tensions which have been features of Kenya for several decades
- Heralded an unprecedented period of peace and unity – for business and development
- The President finally reaches out to all Kenyans, irrespective of political or ethnic extraction.
- Provided the President with a peaceful environment to pursue his legacy – the Big 4 Agenda; Eradication of corruption; a more inclusive Kenyan Society

Negative Effects of the Handshake

- Weakened Political Opposition: NASA Principals, Raila Odinga (Africa Union's High representative for Infrastructural Development) and Kalonzo Musyoka (South Sudan Special Peace Envoy), are effectively part of the government

- With Raila supporting the government, there is no strong voice to call out the government on issues of governance

- Fear of resumption of hostility between the Kalenjins and the Kikuyus

The Big 4 Agenda

- President Uhuru's governance blue-print, announced on December 12, 2017
- Based on the President's 2017 campaign promise to pursue Vision 2030
- Vision 2030 was launched in 2008 as Kenya's development blueprint covering the period 2008 to 2030
- Aimed at making Kenya a newly industrializing, "middle income country providing high quality life for all its citizens by the year 2030"
- Big 4 Agenda Uhuru's action plan to drive Third Medium Plan to for Vision 2030

The Big Four Agenda

- Enhancing Manufacturing
- Food Security and Nutrition
- Universal Health Coverage
- Affordable Housing

Agenda 1: Enhancing Manufacturing

- 9.2% to 20% of GDP by 2022
- a modern industrial park in Naivasha
- accelerate export of agro-processed products by mapping tea, dairy, meat, and crop value chains
- oil and mining: attract one global mining player and export Turkana oil
- a blue ocean policy and an aquaculture special economic zone on Lake Victoria, increase fish exports from 2,500 tons annually to 18,000 tons creating create 20,000 jobs

Agenda 2: Food Security & Nutrition

- 100% Food security and nutrition commitment
- large-scale production: 700,000 new acres of maize, potato, and rice cultivated under a private-public partnership scheme
- use of locally blended fertilizer, waivers of duty for cereal-drying equipment, bags, and fishing equipment
- boost smallholder productivity with 68 new fishing vessels on the Coast
- curb illegal fishing in Kenya's waters,
- build a new shipyard,
- have traceability of animals to drive exports
- train 1,000 SMEs in food processing along the value chain

Agenda 3: Universal Health Coverage

- 100% of UHC by upscaling NHIF uptake
- Increase health spending from Sh61 billion in 2018 to Sh73 billion in 2021
- Increase universal health coverage from current 36% to 100% by 2022
- Extend *Linda Mama* (free maternity) programme to missionary and private hospitals
- Provide (Computer Tomography) CT scan capability in all counties.

Agenda 4: Affordable Housing

500,000 new affordable homes

raise low-cost funds from the public and private sectors for investment in large-scale housing production

reduced tax rates for developers who construct 100 houses a year

pilot scheme at Mavoko for construction of 8,200 houses

Kenya Mortgage Refinancing Company to issue bonds to local capital markets and extend longer-term loans to financial institutions to secure mortgages

Post-Handshake Challenges

- Runaway Corruption
- Foreign Debt
- Chinese invasion – or “colonization”?

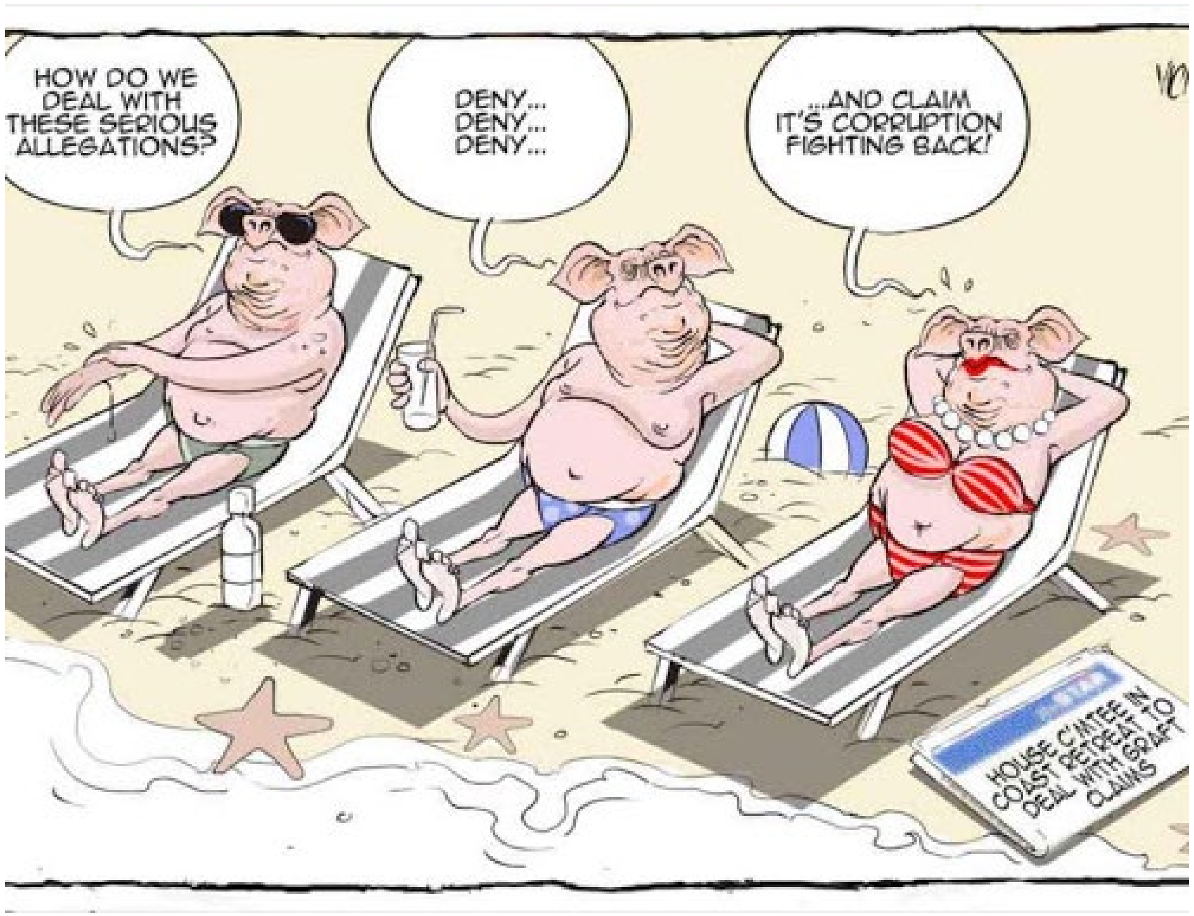
The Cancer of Corruption

Kenya ranks as the 144th least corrupt nation out of 175 countries, according to the 2018 Corruption Perceptions Index reported by Transparency International.

It is estimated that Kenya loses about **Ksh. 608,000,000,000 (Estimates by EACC) annually. That is about US$ 6 billion**

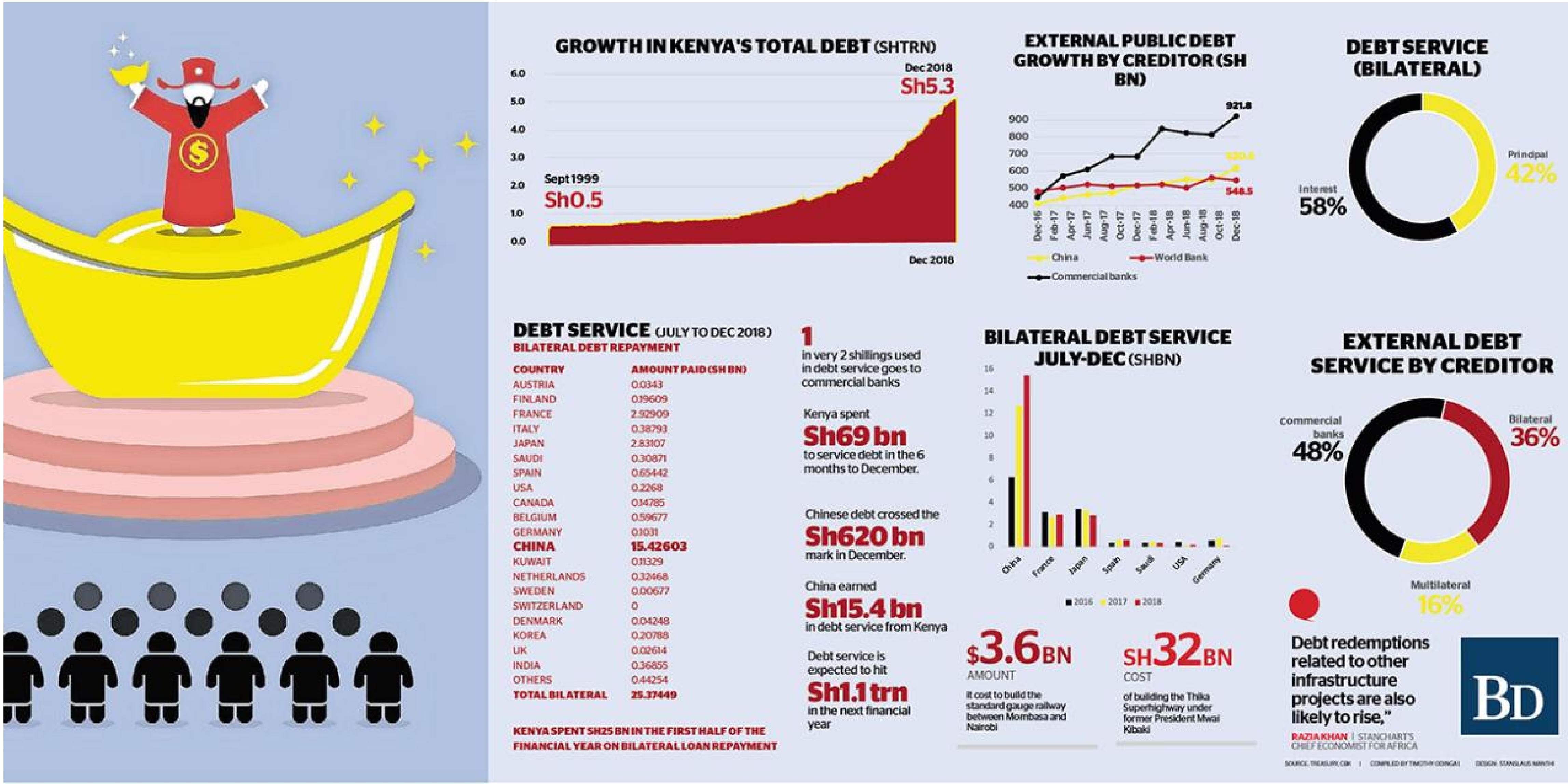
Some sources place the amount lost to corruption annually at Ksh. 700 billion. This is close to 25% of Kenya's annual budget.

- Grand Corruption in Kenya



The Burden of Foreign Debt

- **Kenya's** current public **debt** stands at approximately 4.884 trillion **Kenyan** shillings (USD$49 billion) or 56.4% of the country's gross domestic product. This is up from 42.8% in 2008
- **China** is **Kenya's** largest lender, accounting for 72% of all its foreign **debts**.
- The country is set to spend a staggering KSh 800 billion ($ 8 billion) in 2019 to service its **debts**, becoming the third indebted country behind Angola and Ethiopia

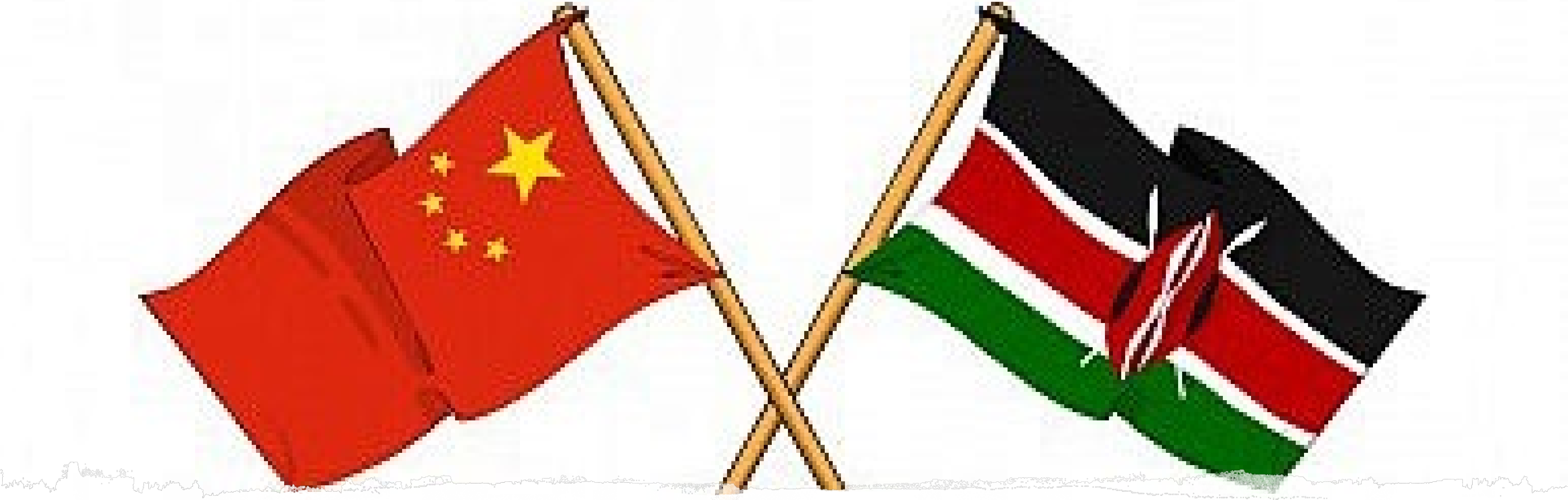

GROWTH IN KENYA'S TOTAL DEBT (SHTRN)
Sept 1999
Sh0.5
Dec 2018
Sh5.3
Dec 2018
EXTERNAL PUBLIC DEBT GROWTH BY CREDITOR (SH BN)
921.8
548.5
China
World Bank
Commercial banks
DEBT SERVICE (BILATERAL)
Interest
58%
Principal
42%
DEBT SERVICE (JULY TO DEC 2018)
BILATERAL DEBT REPAYMENT
COUNTRY
AMOUNT PAID (SH BN)
AUSTRIA 0.0343
FINLAND 0.19609
FRANCE 2.92909
ITALY 0.38793
JAPAN 2.83107
SAUDI 0.30871
SPAIN 0.65442
USA 0.2268
CANADA 0.14785
BELGIUM 0.59677
GERMANY 0.1031
CHINA 15.42603
KUWAIT 0.11329
NETHERLANDS 0.32468
SWEDEN 0.00677
SWITZERLAND 0
DENMARK 0.04248
KOREA 0.20788
UK 0.02614
INDIA 0.36855
OTHERS 0.44254
TOTAL BILATERAL 25.37449
KENYA SPENT SH25 BN IN THE FIRST HALF OF THE FINANCIAL YEAR ON BILATERAL LOAN REPAYMENT
1
in very 2 shillings used in debt service goes to commercial banks
Kenya spent
Sh69 bn
to service debt in the 6 months to December.
Chinese debt crossed the
Sh620 bn
mark in December.
China earned
Sh15.4 bn
in debt service from Kenya
Debt service is expected to hit
Sh1.1 trn
in the next financial year
BILATERAL DEBT SERVICE JULY-DEC (SHBN)
China
France
Japan
Spain
Saudi
USA
Germany
2016
2017
2018
$3.6BN
AMOUNT
It cost to build the standard gauge railway between Mombasa and Nairobi
SH32BN
COST
of building the Thika Superhighway under former President Mwai Kibaki
EXTERNAL DEBT SERVICE BY CREDITOR
Commercial banks
48%
Bilateral
36%
Multilateral
16%
Debt redemptions related to other infrastructure projects are also likely to rise,"
RAZIA KHAN | STANCHART'S CHIEF ECONOMIST FOR AFRICA
BD

China in Kenya

- bilateral relations date back to 14 December 1963, two days of Kenya’s Independence, when China became the fourth country to open an embassy in Nairobi
- Military exchange between the two countries has been increasing in the past decade

China and Kenya: Economic Ties

- China is Kenya’s largest source of foreign direct investment and the country’s second largest trade partner.
- Kenya is East Africa’s largest economy and has shown impressive oil discoveries as of late.



China and Kenya: Economic Ties

- Official Chinese Government Position
- China's nonfinancial direct investment to Kenya more than doubled in 2018 to $520 million (Sh52 billion)
- trade volumes between the two countries have reached $3.74 billion (374 billion)

China and Kenya: Economic Ties

- Kenya National Bureau of Statistics (KNBS) indicates in the last 6 years:
- Chinese exports to Kenya have shot up from Sh167 billion to Sh390 billion - representing an average annual growth of Sh37 billion
- Kenya’s exports to China, on the other hand, have grown at a more subdued rate from Sh4.1 billion in 2013 to Sh9 billion in 2017 representing an average annual growth of Sh1 billion
- bulk of the imports from China involve materials used in the construction of the SGR as part of the deal signed by Mwai Kibaki
- This has robbed Kenya’s local manufacturing sector the opportunity to plug into the giant infrastructure project
- E.g. undermined the revival of the dormant Numerical Machining Complex (NMC) that was expected to provide steel for the SGR

The standard gauge railway project. Its construction was funded by China. PHOTO | FILE | NATION MEDIA GROUP

Standard Gauge Railway

Standard Gauge Railway

- Cost $3.2bn (£2.5bn)
- Funding for the 472km (293 mile) project was provided by China
- It took three-and-a-half years to build, using Chinese track-laying technology
- The line is supposed to eventually connect land-locked South Sudan, eastern Democratic Republic of Congo, Rwanda, Burundi and Ethiopia to the Indian Ocean

The Standard Gauge Railway

- China's Road and Bridge Corporation (CRBC) struck a deal with Kenya in 2013 to launch a new and improved railway linking Mombasa to the capital Nairobi.
- it runs parallel to the now-dilapidated metre gauge railway line from the colonial era.
- The railway project to extend to neighboring countries.
- To carry freight trains at speeds of up to 80 kilometers per hour, reducing the current 36-hour trip by rail to eight hours and dramatically reducing transport cargo costs.
- Passenger trains go up to 120 kilometers per hour, cutting travel time down from 14 hours to four.
- The Standard Gauge Railway passenger train, the Madaraka Express launched in June 2017

The Standard Gauge Railway

- At a **cost** of US$3.6 billion, the **SGR** is Kenya's most expensive infrastructure project since independence.
- At $5.6m per kilometre for the track alone, Kenya's line cost close to three times the international standard and four times the original estimate
- was SGR the most economically sensible solution to Kenya’s infrastructure needs?

The Standard Gauge Railway

Cost comparisons between Kenya’s 472km and Ethiopia's 756km Addis Ababa-Djibouti lines:

Both are SGR projects financed by Chinese loans, costing $3.4bn (£2.6bn) for Ethiopia and $3.2bn for Kenya.

Ethiopia's line is more than 250km longer and is electrified, which is typically more expensive; trains running on Kenya's line are diesel-powered.

Kenyan government: reasons for high cost- the terrain required many bridges and tunnels, land compensation and a need for specifications that would handle greater cargo volumes than Ethiopia's line.

Standard Gauge Railway

- 80% of the money for the new railway came through loans from China
- government advisers Canadian Pacific Consulting Services (CPSC) challenged its economic viability in a 2009 study.

Challenges of China/Kenya Relations Highlighted by the SGR Deal

- China’s debt-trap diplomacy – burdening poor countries with unsustainable loans.
- Kenya’s key strategic assets at home and abroad will not be protected by “sovereignty” from being seized by Chinese government in case of default in repaying the Standard Gauge Railway loan
- SGR contract will be governed by Chinese laws with all disputes being arbitrated in Beijing
- “Neither the borrower (Kenya) nor any of its assets is entitled to any right of immunity on the grounds of sovereignty or otherwise from arbitration, suit, execution or any other legal process with respect to its obligations under this Agreement, as the case may be in any jurisdiction,” Clause 5.5 of the Preferential Buyer Credit Loan Agreement on the Mombasa-Nairobi SGR

Challenges of China/Kenya Relations Highlighted by the SGR Deal

- blanket reference to “any asset” allows the Chinese lenders to take over other critical resources — anything from airports and natural resources to embassies abroad.
- Kenyan government reportedly waived the sovereign immunity of its largest and most lucrative port, the Port of Mombasa, to be used as collateral for Chinese loans to construct SGR

Challenges of China/Kenya Relations Highlighted by the SGR Deal

- Kenya is also compelled to import goods, technology and services from China.
- In 2018, Kenyan President Uhuru Kenyata banned Chinese fish imports in response to public outcry over the unregulated importation of fish from China
- Chinese government used SGR as leverage against Kenya by threatening to completely pull funding for the project as well as threatening to impose trade sanctions
- Kenyan government soon after lifted the ban of Chinese fish imports

Conclusion

- Despite all challenges, Kenya has made significant political and economic progress after the handshake
- Kenya has enjoyed unprecedented period of peace and stability
- There has been a remarkable shift in public discourses: now people talk about ‘issues’ – cost of living, corruption, foreign debts, etc..
- However, the peace is still fragile: questions abound on whether the peace occasioned by the Handshake can last
- Will it break the cycle of election violence?
- But, there is HOPE