

2017 Kenyan Elections “The Quinquennial Fever”

The two East African countries of Kenya (quinquennial) and Rwanda (septennial) are poised to hold their elections in August this year on 8th and 4th respectively. In this piece, we delve more on the Kenyan elections seeing that in Rwanda, pundits see the incumbent (Paul Kagame) as the outright winner. With Kagame having been in power for over 16 years, the other two Presidential candidates, Frank Habineza and Philippe Mpayimana, offer no formidable opposition. The 2015 referendum held in Rwanda shortened the tenure of Presidential office from 7 to 5 years. Going forward, the next Presidential elections are anticipated to be tantalizing given that this is expected to be Kagame’s last stint as President. In addition, the incumbent is expected to leave a legacy (being his last term in office) and as such, we could see the country take up more tough stands; [such as the planned ban on importation of second hand apparel](#).

In Kenya, the Presidential elections are fiercely competitive pitted against the sitting Head of State, Uhuru Kenyatta under Jubilee party and the leader of opposition, Raila Odinga under NASA coalition; similar to 2013 general elections. In 2013, the current President carried the day having passed the 50% +1 threshold (among the prerequisite qualifications for a Presidential candidate to be declared the winner) by a meagre 63,115 votes (0.4% of the total registered voters). This time round, Raila is back with a stronger coalition against the incumbent encompassing the second runners up Presidential candidate in 2013, Musalia Mudavadi. With this new outfit, we expect the elections to go down to the wire and could even result in a run-off.

The 2007-2008 post election violence still remains fresh in the minds of Kenyans with a number of investors remaining skittish during this electioneering period. The upcoming election is perceived to be as intense as the 2007 general elections with some international election observers warning of possible violence during the elections. We however take solace on the utterances and the manifestos of the Presidential candidates reaffirming their commitment to peaceful co-existence and unity before, during and after the elections. Furthermore, legislature changes, new bodies and a revamped judiciary as contained in the 2010 constitution offer adequate avenues for settling election disputes. As such, we remain hopeful and optimistic about a peaceful General Election (and a peaceful transfer of power if it arises).

In this feature, we look into various issues outlined below:

- **Election jitters:** Is there a correlation between the equities market and the election period?
- **In the Manifestos:** Recommendations proposed by the two Presidential candidates on the issues facing the country.
- Opinion polls.
- Voting patterns.
- Legal framework and scenario breakdown.
- Parting shot.

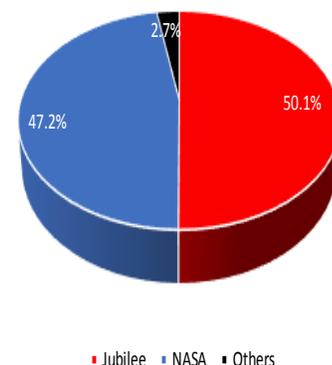
Kenya

Bloomberg ticker	1001Z KN Equity
Population (M)	45.4
GDP per capita (USD)	1,519.3
Number of registered voters (M)	19.6
Number of counties	47
Debt to GDP (%)	51.5
Current account deficit to GDP (%)	-6.1
Inflation (%)	9.2

Presidential Candidates

Uhuru Kenyatta	Incumbent
Raila Odinga	Opposition Leader
Cyrus Jirongo	Former MP
Ekuru Aukot	Former Secretary of CoE
Abduba Dida	Former Teacher
Joseph Nyagah	Former Cabinet Minister
Michael Wainaina	Former lecturer
Japheth Kavinga	Consultant

2013 presidential elections



Source: IEBC

*NASA numbers have factored in the votes garnered by the second runners up who has joined the new political outfit

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Election jitters?

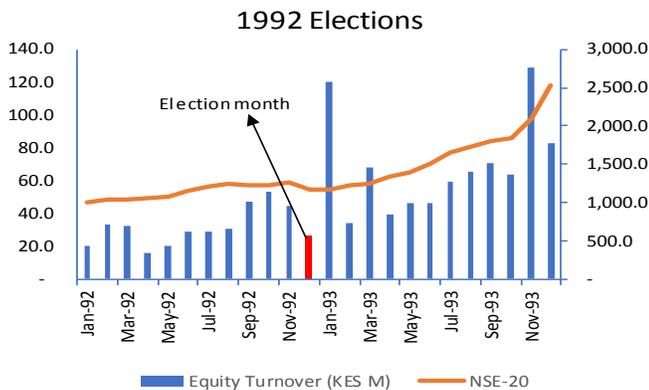
Before we infer that the electioneering period causes jitters in the equities market, we opt to look at the previous 5 elections held in the country in isolation and the scenarios surrounding the respective elections.

A.) 1992 (first under multipartism)

This was the first General Election held in the country that allowed multipartism and featured a ballot for the post of President. The results of the elections were marred by allegations of ballot-box stuffing and targeted ethnic violence.

Market reaction:

Three months before the elections saw an uptick in market turnover which could be seen as investors consolidating their positions before the elections. The election month (December) however saw a slump in market turnover, but staged a recovery in subsequent months. The NSE-20 remained fairly stable during the pre-election period, dipping in the election month and before going on to garner points in the subsequent months.



(Source: NSE)
The election month was in December

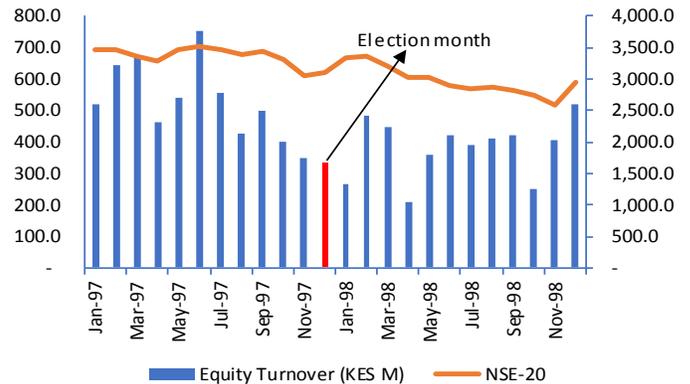
B.) 1997 (Moi's final term as President)

The elections would see the sitting President (Moi) serve his last term in office after the enactment of 2-term Presidency in 1992.

Market reaction:

6 months before the December elections, the market started dipping coming from a fairly stable environment. Both the market turnover and the NSE-20 slowed down before the elections but went on to remain submerged even after the elections. The El Nino (and subsequent Lanina) of 1997-1998 coupled with the 1998 US Embassy attack were among the reasons for the market's dismal performance during the period.

1997 Elections



(Source: NSE)
The election month was in December

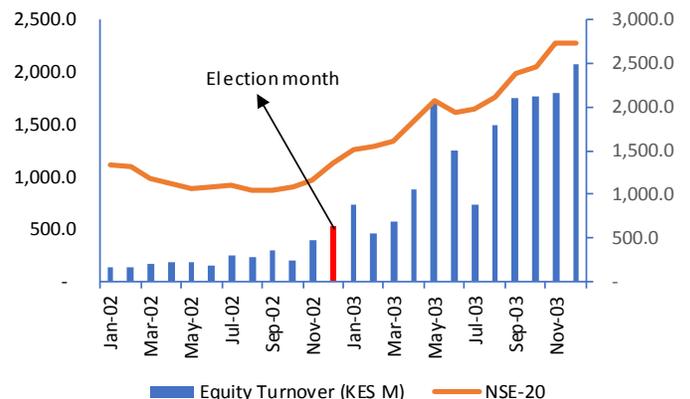
C.) 2002 (KANU falls)

The ruling party fielded a rather weak Presidential candidate at the time (Uhuru Kenyatta) against a united opposition whose flag bearer was Mwai Kibaki. There was euphoria across the country with KANU's (the ruling party at the time) fall appearing imminent.

Market reaction:

The market was coming from a bearish run and hence the election period had a minimal effect on the market turnover and index numbers. However, the period after the elections was marked with a steep upsurge in the market performance underpinned by the new Government's apparent commitment to fulfill their pre-election promises.

2002 Elections



(Source: NSE)
The election month was in December

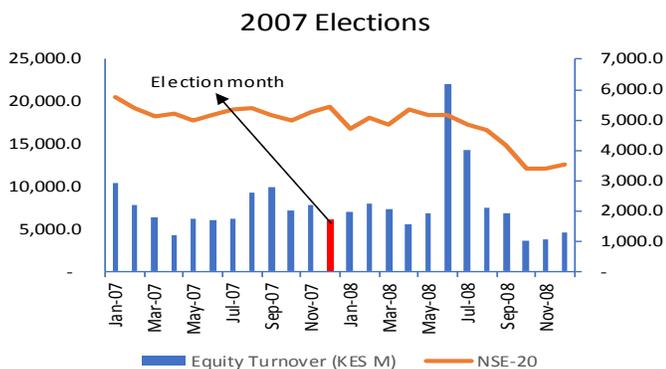
The Quinquennial Fever

D.) 2007 (Post Election Violence)

Political temperatures escalated as the incumbent (Kibaki) faced off with the challenger (Raila). Marred with rampant election malpractices, the incumbent carried the day though Raila opposed the election outcomes. This led to civil unrest and with it came the post election violence that claimed hundreds of lives and also saw thousands displaced. The violence came to an end upon the enactment of the National Accord and Reconciliation Act which saw Raila appointed as the Prime Minister.

Market reaction:

Prior to the hotly contested elections, the markets remained largely volatile due to the uncertainty surrounding the elections at the time. 4Q07 saw the market turnover dip though the NSE-20 remained fairly unchanged. 1Q08 saw the market register a mixed performance with the NSE-20 remaining relatively subdued whilst the market turnover soared; with investors exiting the market in hordes. As normalcy returned, the markets remained volatile declining largely in 2H08 which was attributed mainly to the Great 2008 Recession.



(Source: NSE)

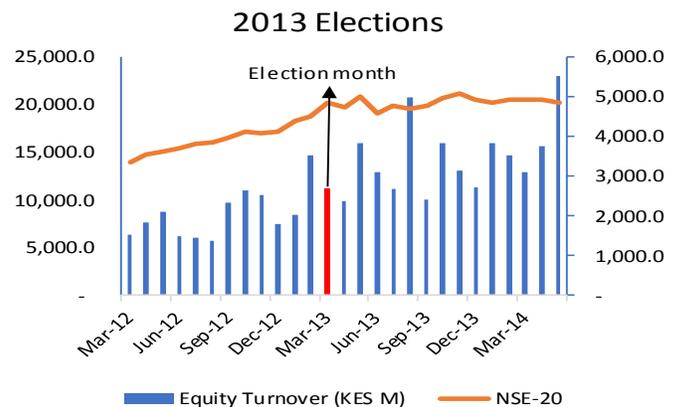
The election month was in December

E.) 2013 (The new constitution dispensation)

This was the first General Election held under the new constitution which saw the electorate vote in new representatives (Governors, Senators, Women Representatives and County Assembly Representatives). It was stiff with the sitting Prime Minister (Raila) facing the former Finance Minister (Uhuru). Though temperatures remained elevated after Uhuru was declared the winner, Raila used election dispute resolution methods enshrined in the constitution to contest the election results. The Supreme Court upheld Uhuru's election and he was later sworn in.

Market reaction:

Prior to the general elections, the markets were recovering from a bearish run with the market turnover and the NSE-20 repetitively building on gains. During the electioneering period, the market experienced volatility attributed to anxiety over this period. After the elections, the market continued to recover registering impressive gains as highlighted by the high NSE-20 index and high market turnover. The market recovery could be attributed to the optimism surrounding the full implementation of the new constitution that saw Government functions and revenues devolved to counties.



(Source: NSE)

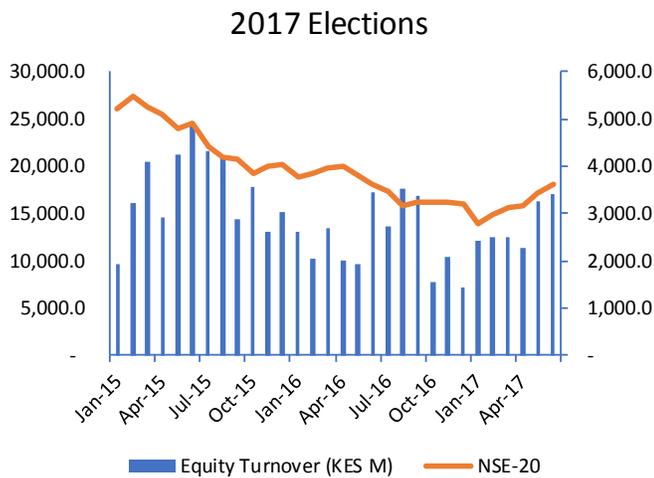
The elections are fixed for the second Tuesday in August every fifth year by the 2010 constitution. The courts however pushed the elections from August 2012 to March 2013 to give IEBC time to prepare and to let Parliament serve its full term.

E.) 2017 (What now)

These elections are similar to the ones held in 2013, in that, Uhuru is set to square off with Raila. The incumbent under the same political outfit, Jubilee (which was a coalition between TNA and URP political parties) is riding on the wave of "adequate performance" wooing the electorate by virtue of implementation of his 2013 manifesto. This time round, Raila is back with a different political coalition, National Super Alliance (NASA). NASA encompasses Raila's previous allies in addition to roping in the second runner's up to 2013's elections, Musalia Mudavadi. The challenger is rallying up support by pointing out Jubilee's failures in power and their "better" solutions to issues facing the country.

Market reaction:

The elections come with the market being stuck in a bearish run that has persisted for over 2-years now. The NSE-20 has been on a constant decline in the period, with the market turnover remaining relatively low. On the flip side, the bearish run has seen an uptick in foreign interest with the foreign participation averaging c.66.0% during this period.



(Source: NSE)

The elections are to be held on 8th August 2017

2017 pre and post election projections

The year has seen an uptick in the NSE-20 index (up 12.4% YTD) though market turnover has remained relatively flat. In the build up to the elections, we expect the index to remain largely unchanged, though market turnover may take a hit with most investors remaining largely skittish. Investor participation is anticipated to be aimed at position taking in fundamentally sound counters.

Market performance after the elections remains largely dependent on peaceful elections being held in the country. We remain optimistic of a peaceful election, though, in the wake of post election skirmishes, the market is anticipated to take a hit.

In the Manifestos

Though a number of manifestos promise utopia with a section of the electorate doubtful of the respective candidate’s goodwill to fulfill them, we believe that they offer an insight into the general direction of governance anticipated if the said candidates came into power. In addition, they serve as a yard-stick to appraise.

A.) Economic growth

Jubilee:

1. Establish a General Services Agency that will manage and support all Government procurement. This will reduce wastage to the tune of KES 1T in the next 5 years, keeping debt at sustainable levels.
2. With improved tax collection technology and tax practices, tax revenue collected will rise to 27% of GDP from the current 19% of GDP.
3. Reduce the cost of living by stabilizing the cost of food, energy and transport.
4. Merge the current various funds (which fund the youth, women and micro and small enterprises) into the Biashara Bank aimed at delivering affordable financing.

NASA:

1. Target a real GDP growth rate of 10% p.a and above for the next 5 years with the private sector as the main source of growth and employment creation.
2. Achieve prudent management of public debt to lower its cost and risk by fiscal consolidation to reduce the large fiscal deficit to lower single digits levels.
3. Implement structural reforms to support and improve tax collection.
4. Lower corruption and Government wastage which will in turn bring down the Government’s appetite for debt. With the Government borrowing less from the domestic market, banks would be forced to lend to the private sector.

B.) Transport Infrastructure

Jubilee:

1. Construct the second phase of the SGR from Nairobi to Naivasha and ensure that at least 40% of the contract value is allocated to Kenyan companies.
2. Construct a rail link from Lamu to Miritini, a road from Lamu to Isiolo and complete the development of the remaining 29 berths in Lamu port.
3. Complete the 7,000 Km of road currently under construction and work with County Governments to increase coverage of rural access roads.
4. Construct the Mombasa-Nairobi six lane highway toll road which together with the SGR will transform the 450Km between the two cities into a large and vibrant economic zone.

NASA:

1. Introduce high-speed commuter rail and collaborate with the county government to fast-track the implementation of the Nairobi Mass Transit Project.
2. Construct the Moyale - Mandera - Wajir - Garissa Road to connect North Eastern Kenya to the rest of Kenya and eradicate the North Eastern's historical isolation.
3. Pursue the construction of Likoni Bridge through PPPs

C.) Energy Infrastructure

Jubilee:

1. Universal access to electricity by 2020.
2. Complete the development of new power plants currently under construction including the 310 MW Lake Turkana Wind Power Plant and the two units in Olkaria that will add another 210 MW to the grid.
3. Implement the 50% lower tariff for firms who run night shifts between 10pm and 6am to stimulate the 24-hour economy and reduce energy costs for heavy users.

NASA:

1. Replace diesel plants with natural gas and renewable power, with the intent to retire thermal plants in the long-run.
2. Identify and address all drivers of high electricity prices with a view to achieving lowest possible tariffs .
3. Construct a 1,000MW gas plant in Lungalunga for energy generation.

D.) Corruption

Jubilee:

1. Digitization of all payments for public services to eliminate corruption avenues.
2. Deploy an enhanced protection, reward and recognition framework for whistle blowers.
3. Increase the penalty to include jail time for economic crimes and work with the judiciary to reduce the timelines for the conclusion of economic crimes to less than 6 months.

NASA:

1. Appointees and elected officials shall not do business with the Government either directly or indirectly.
2. Increase budgetary allocations to the office of the Auditor General to enable it have fully competent offices in each county.
3. Declare corruption a threat to national security.
4. Establish an independent ethics and anti-corruption desk in every government institution that will receive complaints from the public on corrupt activities within the institution.

E.) Devolution

Jubilee:

1. Implement a one county-one-product programme to promote the development of industries in each county based on products and resource potential that are unique to each county.
2. Strengthen devolution by implementing a structured system of conditional grants to enable county governments to enhance their capacity to raise their own revenues, drive investment to national priority areas and strengthen their organizational capabilities.

NASA:

1. Increase the percentage of national revenue allocated to the counties up to 45% to ensure that funds follow and match functions and absorption.
2. Reorganize old order institutions that straddle national and devolved functions so that they become joint entities of both the national government and all or groups of county governments (notably roads boards -KURA, KENHA-water boards, and regional development authorities).
3. Eliminate delays in the transfer of funds to county governments.

F.) Security

Jubilee:

1. Strengthen the Anti-Terrorism Police Unit (ATPU) by acquiring more specialized vehicles to counter and deter the security threats emerging from terrorist groups.
2. Provide modern equipment and trained officers to enhance the capacity of our newly established border security programme and enhance the marine security patrol.
3. Expand the capacity of the Anti-Stock Theft Unit (ASTU) to control banditry and cattle rustling in the country.
4. Enhance community participation in security through strengthening the Nyumba Kumi initiative and the 290 sub-county peace and security committees.

NASA:

1. Begin a phased pull-out of the Kenya Defense Forces from Somalia beginning the first 90 days and secure the Kenya-Somalia border from the inside.
2. Establish a Metropolitan Police Unit under the Inspector-General of Police for major urban areas.
3. Address the root causes of inter-ethnic / inter-clan conflict by investing in interventions that alleviate economic marginalization, scarcity of resources and lack of employment.

G.) Industrialization

Jubilee:

1. Improve Kenya’s global ranking in Doing Business Indicators from our current position of 92 to within the top 50 and further lower cost of doing business for both domestic and foreign investors
2. Create and fully implement a robust Small and Medium Enterprises (SMEs) development and support programs which would formalize the large number of informal businesses and support their growth from micro to small to medium enterprises, and eventually into large firms.
3. Expand Kenya’s share of the USD 84B US textile market through the African Growth and Opportunity Act (AGOA) from the current 0.4% to 10%. This will revive our cotton sector, generate an additional KES 14-20B and create over 100,000 jobs.
4. Strictly enforce the 40% local content for all government projects and reserve 30% of those projects for SME’s with proven capability to produce locally made goods and services.

NASA:

1. Collaborate with counties to establish industrial parks for micro and small enterprises in every county.
2. Collaborate with counties to establish county workshops where jua kali (artisan) entrepreneurs can lease machines at affordable rates.
3. Establish incubators to help micro and small enterprises to develop globally competitive products

H.) Tourism

Jubilee:

1. Diversify our tourism products to include low cost and high value packages.
2. Continue investing in infrastructure to facilitate tourism.
3. Work with international partners to increase direct, low-cost flights to Kenya.
4. Make health and medical tourism a vibrant socio-economic sub-sector in Kenya.

NASA:

1. Encourage price caps on data roaming charges.
2. Develop financial support for the digitalization of the tourism sector.
3. Develop sports tourism on low capital outlay sports.
4. Develop a domestic commercial aviation network to enhance the accessibility of some potential tourist sites.

I.) Agriculture

Jubilee:

1. Complete the 57-large-scale dam construction programme, support small-holder agricultural drip irrigation and work with the private sector to enhance commercial agricultural production on at least 1.2M acres.
2. Double the fertilizer subsidy initiative, reducing the cost to farmers to less than KES 1,500 and expand the programme to include all crops with a resultant increase in production. Support the expansion and capacity of local fertilizer manufacture.
3. Work with county governments to establish at least one agricultural produce market that provides a central outlet for agricultural produce where farmers can sell directly rather than through middle men.

NASA:

1. Cap AFC (Agricultural Finance Corporation) loan interest rates at single digit to ensure that loans are available and affordable.
2. Collaborate with counties to employ mobile service to distribute farm subsidies so that farmers receive confirmation of vouchers on their phones.
3. Collaborate with county governments to build incubation centres for agricultural training and innovation.
4. Develop a comprehensive national crop and livestock insurance system.
5. Promote the development of commodity markets and risk management instruments (futures and options).

Opinion Polls

The race to the house on the hill remains stiff with the incumbent (Uhuru) and the opposition leader (Raila) emerging as clear favorites in the polls. Currently, Uhuru is leading the charge with a 5% point lead ahead of Raila, though neither achieves the 50% plus 1 threshold (in the polls). It is highly possible that neither will achieve the same in the general elections, leading to a possible run-off scenario (further expounded later).

	Ipsos (May)	Info Track (June)
Uhuru (%)	47.0	48.0
Raila (%)	42.0	43.0
Undecided (%)	8.0	8.0
Others*	3.0	1.0

Source: Respective opinion bodies

*Others comprises other Presidential candidates and respondents who said they wouldn’t vote

Recent events have however shown that these polls may be overly optimistic on some candidates/scenarios (e.g US Presidential elections and the Brexit Vote). Back home, the polls were right in the 2002 & 2013 elections, and the 2010 constitution referendum though they were misleading in the 2007 elections. This election remains too tight for pundits to call and as such, we'll have to wait for the electoral outcome.

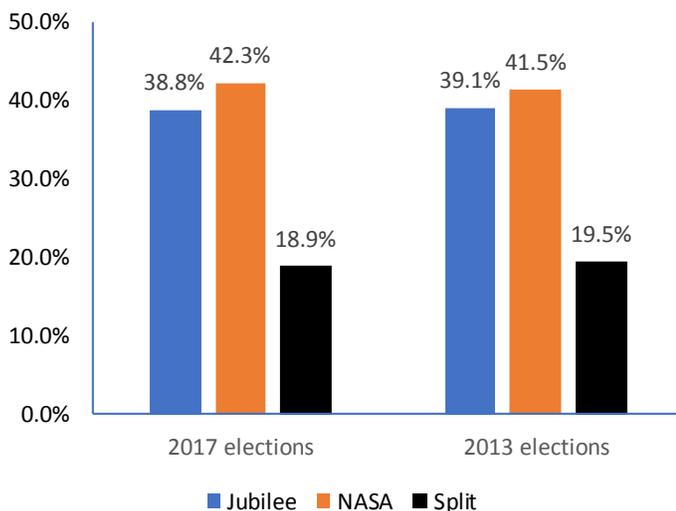
Voting Patterns

Election patterns in Kenya remain largely based on tribal lines with some terming general elections as a tribal census to determine which combination of tribes carries the day.

Strength by registered voters

Judging from the voting patterns established in 2013, the opposition appears to have more registered voters in its strongholds (41.4%) against Jubilee's 39.1%. This time round, the IEBC reports that the number of registered voters has surged by 36.9% to 19.6M voters. Going by the previous voting patterns, NASA's voter drive seems to have borne fruit with the coalition adding on to its portion of registered voters to 42.3% (+79bps). Jubilee's portion of the cake, from its strongholds appears to have taken a hit as it is down 31bps to 38.8%. On this front, NASA seems to carry the day.

Voter distribution by stronghold

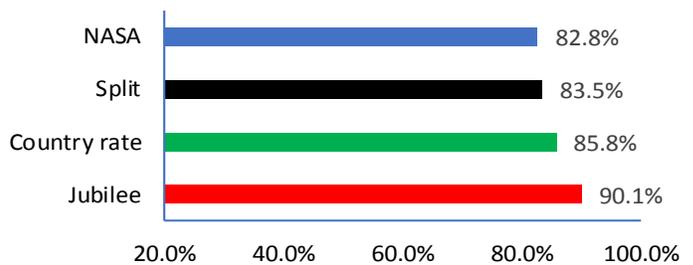


Source: IEBC

Strength by voter turn-out

Despite the alluring large numbers by NASA, Jubilee's ability to rally voters to turn-up to vote during the elections saw the latter carry the day in the previous election. Voter turn-out in Jubilee strongholds stood at 90.1% against the country's turn-out rate of 85.8%. NASA's voter turn-out was below the country's rate at 82.8% whilst the split regions saw voter turnout registered at 83.5%. By voter turn-out metrics, Jubilee carries the day.

Avg voter turnout per stronghold



Source: IEBC

Strength by vote consolidation

Building on the voter turn-out numbers, Jubilee garnered 88.8% of the Presidential votes cast in its strongholds compared to 85.2% of the votes garnered by NASA in their popular grounds.

The Swing vote

These are counties which we classified as being largely divided by virtue of the Presidential votes granted to each of the two camps in 2013. NASA carried the day having got 49.6% of the votes in these regions with Jubilee hot on the heels to collect 46.9% of the votes. Of key note is Nairobi county (the capital city which attributes 60.9% of the swing votes) with NASA getting 50.6% in Nairobi against Jubilee's 46.8% in 2013.

The Game Changer

By our analysis (based on the voting patterns in 2013) NASA's strongholds appear superior to Jubilee's in terms of registered voters. Since the voter registration period has lapsed, neither camp can change this scenario.

Jubilee and NASA have embarked on nationwide campaigns urging their voters to turn up on the big day and vote. As such, we expect larger across the board voter turn-out. If NASA can augment their turnout numbers, they may pose a challenge to Jubilee, though the latter has had higher numbers historically.

The strategy adopted by either sides is trying to destabilize their opponents strongholds while at the same time strengthening their own support bases. This is aimed at easing voter consolidation of their opponents' "home grounds" while strengthening their own in the process. Whether this strategy works or not remains to be seen once the election results are announced. The icing on the cake shall be on the swing votes and more particularly Nairobi. NASA may take comfort that in 2013, they carried the day in the country's capital, though Jubilee have doubled up their efforts to enhance their popularity in the region.

Legal Framework and Scenario Breakdown

There exists a number of prerequisite legal conditions that the Presidential candidates have to fulfill to be cleared by the IEBC. However, since they've already been cleared by the electoral body to vie for the seat, we'll deviate into other provisions of the law.

Declaration as President Elect:

According to the Kenyan constitution Cap 138 (4), a candidate shall be declared elected as President if the candidate receives—

- (a) more than half of all the votes cast in the election (i.e 50% plus 1) and
- (b) at least 25% of the votes cast in each of more than half of the counties.

The second condition is easier for the two front-runners given their popularity across the country, though with the first condition, it may prove a challenge to hit.

Cap 138 (5) provides that if no candidate is elected (i.e fails to meet the two conditions, a fresh election shall be held within thirty days after the previous election. The candidate who receives the most votes under the fresh election shall be declared President. In this fresh election the only candidates shall be—

- (a) the candidate who received the greatest number of votes; and
- (b) the candidate who received the second greatest number of votes.

This in essence means that, the current election jitters may be prolonged further by at least a month in the case of a run-off.

Cancellation of the Presidential Elections:

The Presidential election may be cancelled and a new election held if —

- (a) a candidate for election as President or Deputy President dies on or before the scheduled election date; or
- (b) a candidate who would have been entitled to be declared elected as President, dies before being declared elected as President.

If the elections are cancelled, a new Presidential election shall be held within 60 days after the date set for the previous Presidential election.

Announcement of Presidential Elections:

The Chairperson of the IEBC is required by law to declare the result of the Presidential Election within seven days after the Presidential election.

Elections Dispute

A person may file a petition in the Supreme Court to challenge the election of the President-elect within 7 days after the date of the declaration of the results of the Presidential election. Within 14 days after the filing of a petition, the Supreme Court shall hear and determine the petition and its decision shall be final. If the Supreme Court determines the election of the President elect to be invalid, a fresh election shall be held within 60 days after the determination.

Borrowing from the 2013 elections, an election dispute appears inevitable with either side confident of winning. As such, the current pre-existing election anxiety is likely to be carried forward long past the election date. The situation may be exacerbated further if the Supreme Court nullifies the elections.

Parting Shot

Regardless of who assumes power, we expect to see a change in the Governance of this country. If Uhuru retains power, it shall be a matter of policy changes targeted at leaving a better legacy once his second term in office ends (notwithstanding the *second-term curse*) On the other hand, if Raila clinches Presidency, he promises a raft of changes aimed at radically changing this country. We remain cognizant of the possibility of poll violence during these elections but take comfort in the utterances of the Presidential candidates on matters concerning national cohesion. During the pre-election period, we project that most of the market activity shall be focused on position taking in preparation of the elections. In the event of a peaceful election, we expect the market to catapult and we may see a reversal of the current bearish run.

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