Focus on what Kenya can learn from Singapore on corruption, and Cytonn Weekly Report #47

Cytonn Weekly

Executive Summary

- **Fixed Income:** Yields on government securities continue to decline for the fifth straight week. The Central bank issuing a 9 Year Amortizing Infrastructure Bond;
- **Equities:** The market declined during the week with NASI and NSE 25 falling 2.8% and 1.0%, respectively. Listed banks finish releasing their Q3?2015 results with average growth at 9.3% compared to 15.2% last year;
- **Private Equity:** Ease of exits in Africa continues to spur further interest in private equity;
- **Real Estate:** Stanlib?s Fahari I-REIT undersubscribed with the overall subscription at 28.8%;
- **Focus of the Week:** In order to combat corruption in the country, the leadership must possess the sincere will to come up with viable plan and ruthlessly implement the plan;

Company Updates

- This coming Thursday, December 3 at 7PM, immediately following our Board of Directors meeting, we shall host our Annual Thank You Get Together for all our clients and key partners at the Nairobi Kempinsky. It is the strong support of our partners that has led to a very successful 2015 for the firm with very strong growth across all key business metrics.
- Our Head Private Equity, Real Estate, Shiv Arora discussed Kenya Power?s full year results and Standard Chartered Bank?s profit warning of 25%. See link on CNBC Africa
- Our Senior Investment Analyst, Duncan Lumwamu discussed the upcoming 9 year infrastructure bond and CfC Stanbic bank?s decline in Q3?2015 profits**.** See link on CNBC Africa
- Our Senior Investment Analyst, Duncan Lumwamu discussed the repercussions of money laundering on Kenyan banks and the decline in short term borrowing costs. See link on CNBC Africa
- We continue to beef up the team with the following ongoing hires

Fixed Income

Treasury bill auctions were undersubscribed during the week, with overall subscription at 38.2%, compared to 103.5% the previous week despite relatively high liquidity in the money market. Investors preferred short-term investments with the 91-day Treasury bill being marginally subscribed while the 182 and the 364-day registering significant under subscription. Yields on treasury bills continued to decline settling at 9.2%, 10.1% and 11.9%, from 9.6%, 10.6% and 12.1% for the 91-day, 182-day and 364-day papers, respectively. The 5-year bond results were released and the subscription was at 165% as the government got Kshs 33.00 bn compared to Kshs. 20 bn that they were looking for. Of note is that the CBK accepted Kshs. 30.7 well above what they had offered to the market. In line with our prediction in the Cytonn Weekly Report #46, the market average of the 5- year bond was at 14.0% and the average of the accepted bids at 13.9%. We had predicted a range of 13.5% to 14.5%. The high subscription on the bond is an indication that investors are seeking for high risk adjusted returns and the high acceptance rate shows that the government remains keen to raise money in the domestic market.

The money market was relatively liquid, however skewed to a few banks, which saw the interbank rate decline to 6.0%, from 6.4% the previous week. The Central Bank Liquidity Management continued to boost liquidity distribution in the interbank money market through reverse repos and so far in the month of November, the CBK has injected Kshs. 81.0 bn mainly to support the small banks that cannot access liquidity through interbank.

Despite expected cyclical end month demand, the shilling remained stable during the week against the dollar closing at Kshs. 102.1 as the forex reserves remained unchanged at 4.3 months of import cover.

The government, in an effort to increase the tax net, signed into law the Excise Duty Bill 2015. However, Parliament is yet to consider the Tax Procedure Bill, which is aimed at the consolidation of the laws that guide the administration of tax laws in Kenya. The Excise Duty Bill, which will be levied on imported motor vehicles, juices, and the traditional sin items like cigarettes and alcohol, is aimed at raising an additional Kshs. 25.0 bn in tax revenue. The Tax Procedure Bill will ease tax compliance procedures and in the long run improve tax collection. With The Kenya Revenue Authority consistently missing their revenue collection target, the harmonization of the 2 Bills will allow KRA to collect the much needed revenue and ease borrowing pressure from the Government.

For the month of December Central Bank is issuing a Kshs. 30 bn 9-year Amortised Infrastructure Bond to finance projects in the energy, water and transport sector. The bond has a weighted tenor of 7 years, with a coupon of 11.0% and the allocation of the proceeds will be Kshs. 9.65 bn for Energy, Kshs. 10.00 bn for Water and Kshs. 10.35 bn for Transport. This issuing of the long tenured bond is an indicator that the government views that the interest rate environment has stabilized and is now ready to issue long tenor bonds. Given that infrastructure bonds are tax exempt, they tend to be very attractive to both local and foreign investors. Infrastructure Bonds with a similar tenor are currently trading at 13.0% and given the volatility in interest rates witnessed over the last two months we expect investors to seek a premium while investing in this bond and we shall be giving the expected bidding rate of the bond in the next Cytonn weekly. Note that Infrastructure bonds are tax-exempt, consequently, the 13% yield offer is comparable to 15.3%.

The Government is on track with its borrowing programme having borrowed Kshs 135.5 bn for the current fiscal year compared to a target of about Kshs 91.3 bn assuming a pro-rated borrowing throughout the financial year. Having issued a 5 Year Bond and planning to issue a 9 Year Infrastructure Bond in December, the Treasury views that the interest rate environment has stabilized and want to lock in funds for the long term.

We maintain our view that investors should be biased towards short-term fixed income instruments given the uncertainty in the interest rate environment.

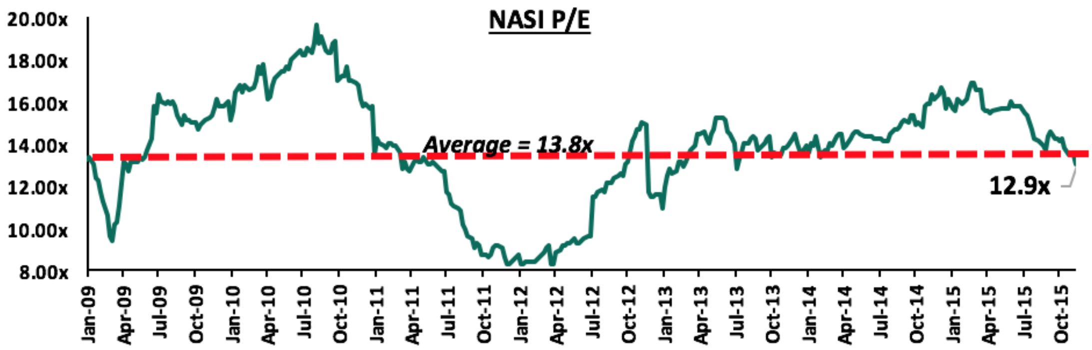
Equities

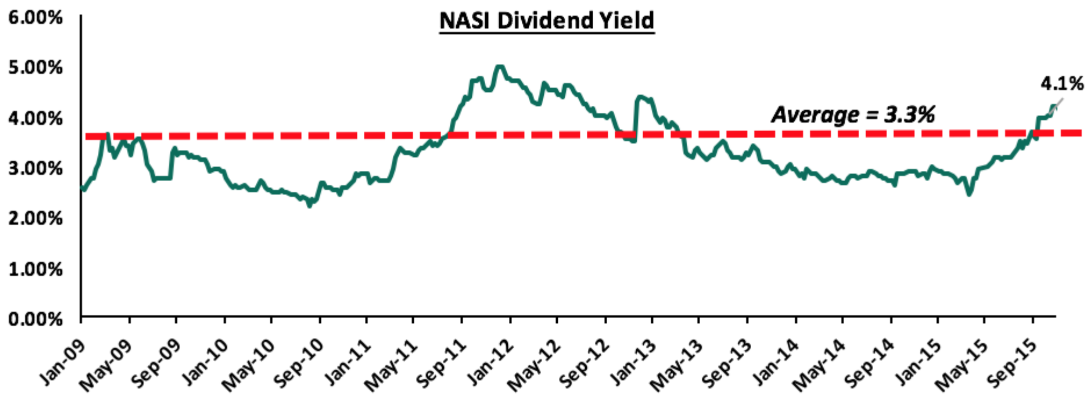
During the week the market took a pause from its recent gains with NASI and NSE 25 declining 2.8% and 1.0%, respectively, while NSE 20 remained flat, on the back of losses in Standard Chartered and Safaricom that declined 8.1% and 7.8%, respectively. Equities turnover fell by 43.2% to Kshs 2.0 bn from Kshs 3.6 bn the previous week. Foreign investor?s participation declined during the week to 63.3%, from 68.5% the previous week with foreign investors being net sellers for the fifth straight week with net outflows increasing 125.5% w/w to Kshs 622.2 mn from Kshs 275.9 mn.

The sustained foreign investors net outflow can be linked to a shift in global investor portfolio flows based on the impeding rate increase in the US that has reduced their risk appetite for securities in emerging and frontier markets.

Since the February peak, NASI and NSE 20 are down 19.5% and 27.4%, respectively, and down 12.3% and 21.9% on an YTD basis, respectively, while NSE 25 is down by 0.1% inception on 2nd October 2015 to date. The market is currently trading at a price to earnings ratio of 12.9x, versus a historical average of 13.8x, with a dividend yield of 4.1% versus a historical average of 3.3%. The 20% to 27% stock indices decline from the February peaks, coupled by market PE valuation below historical average and dividend yield above historical average could be a signal that the market is generally oversold. However, we do not see that to be case because earnings growth for listed companies have also been below historical average in the past one year.

The charts below indicate the historical PE and dividend yields of the market.





In the week the following companies announced their results:

National Bank of Kenya reported Q3?2015 results

- PAT grew by 120.8% y/y to Kshs 2.3 bn from Kshs 1.0 bn in Q3?2014. This was mainly driven by operating revenue growth of 20.6% far outpacing operating expense growth of 1.5%. The contained expense growth led to a decline in cost to income ratio to 63.5% from 75.5%. For National Bank, the growth in PAT is largely attributable to cost containment and one off gains from the sale of some real estate assets.
- The loan book grew by 27.8% y/y to Kshs 73.6 bn while deposits declined by 3.0% y/y to Kshs 90.8 bn, resulting in a LDR of 81.0%, from 61.5% in Q3?2014; Despite the NPLs rising by 3.7% y/y to Kshs 6.1 bn, the NPLs to total loans ratio declined to 8.3%, from 10.2% in Q3?2014 due to a faster growth in loan book
- The yield from the bank?s interest earning assets stood at 12.7%, while the cost of funds came in at 5.4%, resulting in a net interest margin of 7.9%
- In the past National Bank has had the reputation of being slow and the laggard in the banking sector but since their change in management in 2012, NBK has been on a transformation agenda.

Whereas the bank embarked on selling some of its real estate assets to increase capital, we note that the bank still maintains very thin buffers against the statutory requirement

NIC bank reported Q3?2015 results

- PAT grew by 7.8% y/y to Kshs 3.6 bn from Kshs 3.3 bn in Q3?2014. Anemic PAT growth was mainly because operating revenue growth of 18.8% was far outpaced by expense growth of 31.8%. The 31.8% expense growth was mainly due to staff costs growing by 25.9% y/y to Kshs 2.2 bn from Kshs 1.7 bn. Expense growth led to increase in Cost to Income ratio to 49.0% from 44.1% in the same period last year
- The Loan book grew by 14.9% y/y to Kshs 111.2 bn outpacing deposits growth of 7.4% y/y, resulting in a LDR of 105.1%, from 98.3% in Q3?2014; the high LDR remains a concern and indicates funding pressures that can only be alleviated by more aggressive deposits gathering. There was a significant increase in the NPLs which rose by 75.4% y/y to Kshs 5.9 bn, resulting into a NPLs to total loans ratio of 5.3%, from 3.5% in Q3?2014
- The yield from the bank?s interest earning assets stood at 11.6%, while the cost of funds came in at 5.4%, resulting in a net interest margin of 5.4%
- NIC bank?s weak earnings growth and high LDR is a concern which we shall be monitoring closely

Diamond Trust Bank of Kenya reported Q3?2015 results

- PAT grew by 11.5% y/y to Kshs 4.8 bn from Kshs 4.3 bn in Q3?2014. Operating revenue grew by 16.7% driven by Net interest income, which rose 16.6% y/y to Kshs 10.9 bn from Kshs 9.3 bn last year. Operating expenses were up 23.3% y/y (outpacing the 16.7% revenue growth) to Kshs 7.3 bn from Kshs 6.0 bn owing to a 124.5% y/y increase in loan loss provisions to Kshs 1.3 bn from Kshs 593.1 mn in Q3?2014. The Cost to Income ratio increased to 51.5% from 48.8% in the same period last year
- The loan book grew by 36.5% y/y to Kshs 172.3 bn outpacing deposits which grew by 18.0% y/y to Kshs 175.1 bn, resulting in a LDR of 91.0%, from 85.0% in Q3?2014; The NPLs rose by 47.1% y/y to Kshs 2.4 bn, resulting into a NPLs to total loans ratio of 1.4%, from 1.3% in Q3?2014
- The yield from the bank?s interest earning assets stood at 11.6%, while the cost of funds came in at 4.9%, resulting in a net interest margin of 5.8%
- Diamond Trust Bank?s focus on tapping into the alternative channels will continue to diversify the topline, while keeping costs low. The continued focus on SME lending will further drive growth, albeit in a competitive space

CfC Stanbic bank reported Q3?2015 results

- PAT declined by 33.6% y/y to Kshs 2.8 bn from Kshs 4.1 bn in Q3?2014. Operating revenue declined by 7.9% driven by a decline in non-interest income which fell 22.5% y/y to Kshs 4.9 bn from Kshs 6.3 bn last year, on account of a drop in forex trading income. Operating expenses were up 3.9% y/y to Kshs 7.4 bn from Kshs 7.2 bn owing to a 7.8% y/y increase in staff costs to Kshs 3.5 bn from Kshs 3.2 bn in Q3?2014, raising the Cost to Income ratio to 63.9% from 56.7% in the same period last year. Notably deferred tax charge of Kshs 1.1 billion suppressed the earnings. The significant exposure to fee income is hurting CFC at a time when economic activity is subdued.
- The Loan book grew by 21.5% y/y to Kshs 104.7 bn outpacing deposits which grew by 14.5% y/y to Kshs 113.6 bn, resulting in a LDR of 92.2%, from 86.9% in Q3?2014; NPLs rose by 42.7% y/y to Kshs 3.5 bn, resulting into a NPLs to total loans ratio of 3.3%, from 2.8% in Q3?2014
- The yield from the bank?s interest earning assets stood at 9.3%, while the cost of funds came in at 3.5%, resulting in a net interest margin of 5.2%
- The significant exposure to non-funded income (at 42% of revenue relative to industry average of about 20% of revenue) significantly hurt CFC?s performance. To manage volatility, CFC has to

either reduce its exposure to non-funded income or increase exposure to less volatile non funded income.

Standard Chartered bank reported Q3?2015 results

- PAT declined by 24.3% y/y to Kshs 6.2 bn from Kshs 8.2 bn in Q3?2014. Operating revenue declined by 4.9% driven by a decline in non-interest income which fell 17.5% y/y to Kshs 5.3 bn from Kshs 6.5 bn last year. On the other hand, operating expenses were up 15.0% y/y to Kshs 9.8 bn from Kshs 8.6 bn owing to a 6.6% y/y increase in staff costs to Kshs 4.3 bn from Kshs 4.0 bn in Q3?2014, and a 22.8% increase in other operating expenses, raising the Cost to Income ratio to 52.4% from 43.3% in the same period last year
- Last year, Stanchart had a one-time gain of Kshs. 1.5 bn from a sale of a 5 acre piece of land in Kileleshwa. If we adjust PAT for the 1.5 bn one time gain for last year, then last year?s YTD PAT would have been Ksh 6.7 bn, compared to Kshs 6.2 bn this year, leading to a core PAT decline of 7.5%
- Both the growth in the loan book and the deposits were marginal at 0.9% y/y to Kshs 126.5 bn and 1.2% y/y to Kshs 166.6 bn respectively, hence LDR stayed relatively flat at 75.9% compared with 76.2% in Q3?2014; NPLs declined by 30.2% y/y to Kshs 3.5 bn, resulting into a NPLs to total loans ratio of 6.5%, from 9.4% in Q3?2014
- The yield from the bank?s interest earning assets stood at 12.0%, while the cost of funds came in at 2.6%, resulting in a net interest margin of 7.1%
- Standard Chartered has issued a profit warning, indicating that they expect their 2015 full year earnings will fall by more than 25.0%, citing (i) expected high NPL's, which is associated with the bank venturing into offering loans to SME's which has not been their niche and has really affected the quality of their loan book, and (ii) that in 2014, the bank reported a one-off net capital gain of Kshs 1.4 bn relating the disposal of a property, which will not be replicated in 2015.
- In our view, Standard Chartered is best at being a banker for corporate clients and should stick to their niche and improve on their strengths; they should leave SME and mass banking to KCB, Equity and Cooperative, who are good in that space.

Following the release of all third quarter results amongst the listed banks, we will finalize on the Q3?2015 banking sector report and release it on December 14th. A brief overview of the listed banks indicates that the average growth in earnings per share was 9.3%.

Bank	2014 EPS % Growth	2015 EPS % Growth
Equity	25.90%	14.20%
Housing Finance	6.30%	8.00%
KCB	15.30%	10.20%
Co-operative Bank	-9.00%	36.60%
I&M Bank	0.90%	13.40%
Barclays	11.20%	2.70%
NIC bank	44.50%	7.80%
National Bank of Kenya	17.30%	120.80%
Diamond Trust Bank	10.00%	11.50%
CfC Stanbic	27.00%	-33.60%
Standard Chartered	21.00%	-24.30%
Market Weighted Average	**15.20%**	**9.30%**

Based on the above growth, we can bucket banks into four main buckets:

- Negative growth banks: CFC and SC
- Anemic growth banks, with below 10% growth: HF, NIC, Barclays
- The stable growth banks with 10% and above growth: Equity, KCB, I&M, and DTB.
- The strong growth, with above 20% growth: NBK and Coop. It is notable that all strong growth banks were mainly driven by expense containment, whereby revenue growth far outpaced expense growth, leading to strong PAT growth.

Uchumi Supermarkets reported Full Year 2015 results, posting Kshs 3.4 bn loss after tax, driven by a 10.4% decline in revenue and a one-off Kshs 1.6 bn impairment provision for the closed branches in Uganda and Tanzania. We will be sending a detailed earnings note early in the coming week.

We remain neutral with a bias to negative on equities given the lower earnings growth prospects for this year. The market is now purely a stock pickers? market, with few pockets of value. We continue to be avid buyers of KCB, Equity and Standard Chartered on any price dips.

all prices in Kshs unless stated								
EQUITY RECOMMENDATIONS - WEEK ENDED 27/11/2015								
No.	**Company**	**Price as at 20/11/15**	**Price as at 27/11/15**	**w/w Change**	**Target Price***	**Dividend Yield**	**Upside/ (Downside)****	**Recommendation**
1.	KCB	41.5	41.8	0.6%	54.4	5.1%	35.4%	Buy
2.	Standard Chartered	223.0	205.0	(8.1%)	254.9	5.5%	29.9%	Buy
3.	Equity	41.8	41.8	0.0%	51.2	5.1%	27.8%	Buy
4.	Uchumi	8.1	8.1	0.0%	9.7	0.0%	20.5%	Buy
5.	NIC	42.0	43.3	3.0%	50.3	2.5%	18.8%	Accumulate
6.	Kenya Re	20.8	21.3	2.4%	24.2	3.3%	16.9%	Accumulate
7.	Barclays	13.7	13.4	(2.2%)	14.1	6.5%	12.1%	Accumulate
8.	DTBK	195.0	202.0	3.6%	223.5	1.4%	12.0%	Accumulate
9.	Safaricom	16.7	15.4	(7.8%)	16.3	4.6%	10.5%	Accumulate
10.	Britam	15.0	14.8	(1.3%)	15.9	0.1%	7.7%	Hold
11.	I&M	98.0	99.0	1.0%	102.8	2.7%	6.5%	Hold
12.	Pan Africa	65.0	62.0	(4.6%)	62.1	0.0%	0.2%	Lighten
13.	Co-operative	18.2	18.2	(0.3%)	17.1	3.3%	(2.5%)	Sell
14.	Housing Finance	23.0	22.5	(2.2%)	20.6	5.2%	(3.3%)	Sell
15.	CIC Insurance	6.6	6.5	(0.8%)	5.8	1.2%	(9.7%)	Sell
16.	Liberty	19.9	19.5	(2.0%)	16.7	0.0%	(14.5%)	Sell
17.	CfC Stanbic	90.0	84.0	(6.7%)	71.2	0.0%	(15.2%)	Sell
18.	Jubilee	495.0	515.0	4.0%	428.9	1.4%	(15.3%)	Sell
19.	National Bank	15.9	16.0	0.6%	6.0	0.0%	(62.4%)	Sell
Target Price as per Cytonn Analyst estimates								
*****Upside / (Downside) is adjusted for Dividend Yield***								
Accumulate ? Buying should be restrained and timed to happen when there are momentary dips in stock prices.								
Lighten ? Investor to consider selling, timed to happen when there are price rallies								
Data: Cytonn Investments								

Private Equity

This week, a number of private equity exits were reported across Sub-Saharan Africa region. Actis, RMB Westport and Paragon Holdings have sold their combined stakes, 60%, 20% and 20%, respectively, in Ikeja City Mall to a South African Real Estate Investment Trust (REIT) called Hyprop Investments Limited (Hyprop) and Attacq Limited (Attacq), a JSE-listed real estate capital growth fund. Hyprop acquired a 75% interest in Ikeja City Mall and Attacq has acquired the remaining 25%. Ikeja City Mall is Lagos? largest mall comprising of over 22,000m² and has a tenant mix anchored by Shoprite and several other global luxury stores.

Actis and the local partner Nigerian partner, Paragon Holdings, sourced the site in 2008 and then brought in RMB Westport as the development manager. The mall opened its door in 2011. There is an increasing demand for retail spaces within the African market driven by the diverse middle income and youthful population demanding good quality life.

This deal indicates strong appetite for yield earning real estate across Africa by South African real estate firms and is very positive for developers who can develop investment grade real estate, stabilize the rent and seek exits. The sight acquisition to opening doors took 3 years, opening doors to rent stabilized exit took 4 years, and hence the entire investment to exit took 7 years.

The Abraaj Group, IFC and IFC ALAC Fund announced their successful exit from their investment in Saham Finances (Saham), a subsidiary of the Saham Group. Having bought the stakes in 2012, the three funds have supported the company?s growth strategy by facilitating strategic acquisitions in high growth markets such as Angola, Kenya and Nigeria. Saham has added 11 new subsidiaries to its profile and currently operates 31 insurance and reinsurance subsidiaries in 26 countries in Africa and the Middle East. Earlier in September 2015, Saham Finances bought a 53.6% in Continental Reinsurance PLC, a transaction that saw Emerging Capital Partners exit from the reinsurer. The ease of exit ripens the African private equity attractiveness.

Actis has completed an investment of $62 million for a majority stake in Sigma Pensions (?Sigma?), a leading Pension Fund Administrator (?PFA?) in Nigeria. Sigma was one of Nigeria?s first PFAs and now has over 650,000 registered customers. The pensions industry in Nigeria remains significantly underpenetrated, with pension assets constituting only c.5% of GDP. According to Actis, the PFA industry has demonstrated strong growth and is poised for further expansion. There are currently only c. six million pension-holders in a population of c.170 million, with a median-age of only 19, which supports the growth outlook for the industry.

The continued investment in Africa is underpinned by the need and demand for good services among the population. For example, the interest in the overall financial services sector by private equity players is hinged on (i) a rapidly growing and entrepreneurial population and demand for credit, (ii) low financial services inclusion in the region, and (iii) increasing ease of exit in the financial services sector.

Real Estate

The Results of the Stanlib Fahari I-Reit were announced this week and they raised Kshs 3.6 bn out of the targeted Kshs 12.5 bn, which is 71.2% below the targeted raise. On its first day of trading, each REIT unit was trading at Kshs 23.75 which is an 18% increase from the Kshs 20.0 IPO offer price, though on very low volumes only Kshs 4,750.0 worth of units traded. The Fahari I-REIT was not well taken in the market as compared to previous IPOs and we attribute the low subscription rate to the following:

1. **Low product awareness:** Being the first REIT in the market to be launched there is very low investor knowledge on the product and the Capital Markets Authority need to educate the public on capital markets investments. Despite the REIT manager?s decision to extend the listing date by a week so as to respond to investor queries, it is quite evident that the public still did not feel confident enough in their knowledge of the new investment instrument to invest in it. We believe that given the market?s poor grasp of the REIT concept, the one week extension period was too little to impact the market and that Stanlib should have given a longer extension to sufficiently educate the public on REITS
2. **Opacity on the return profiles for the yielding properties:** Individual investment analysis of the yielding properties being bought was minimal. For this type of venture, investors needed clarity on the expected capital appreciation, current and optimized rental yields for each of the properties so that they could make an informed decision. The lack of sufficient information therefore served to make investors even more wary since there was no basis that could be used to make a decision on whether to invest
3. **Competition from other investment instruments:** Owing to the high interest rate environment, rates of government securities increased gradually from June this year and peaked at a rate of 22.4% on the week of October 26th. This was during the time when Stanlib had launched its Fahari I-REIT. Investors showed preference for the T-Bills as they were offering higher returns and were a less risky investment option

The REIT Manager will spend the funds raised from the IPO to buy Greenspan Mall. The mall has been valued at Kshs 2 bn and will consume 55.6% of the funds raised. In our view these will be a very high concentration but if allowed Stanlib can reopen the REIT and raise more money in the future to assist with the portfolio diversification.

Though the REIT market in Africa is not well developed, there are valuable lessons to be learnt from South Africa, Ghana and Nigeria, the only countries in Africa other than Kenya with listed REITS. South Africa in particular has a very successful and well established REIT market and is the 8th largest REIT market in the world with a market capitalization of approximately R350 bn (Equivalent to Kshs 2.5 tn / USD 25 bn). For the other licensed REIT managers looking to list their REITs in the stock exchange, studying Stanlib and other REIT markets in Africa will provide an added advantage to ensure higher levels of success.

Focus on what Kenya can learn from Singapore on corruption

Every week, we pick a trending topic and focus on it. This past week, several events brought corruption in Kenya to the forefront:

- The President effectively dropped 6 of his 19 cabinet team, meaning that 30% of the cabinet was dropped on corruption allegations
- The President, his November 23rd speech entitled, "We have opened a new chapter in the war against corruption declared corruption" a standing threat to our national security?
- The Pope, during his visit to Kenya noted concerns about corruption.

Having encountered corrupt practices, this is a topic that Cytonn is very passionate about.

The United Nations Development Programme (UNDP) defines corruption as ?the misuse of public power, office or authority for private benefit through bribery, extortion, influence peddling, nepotism, fraud, speed money or embezzlement?. Corruption in Kenya has been prevalent since Independence and major graft scandals have gone unsolved since then. According to Transparency International?s Corruption Perception Index, an annual index depicting public administrative corruption levels within a country, Kenya ranks 145th out of 174 countries, a clear indication of the extent to which corruption runs deep.

Corruption exists in various forms, including petty and grand corruption and according to Transparency International?s report on Corruption in Kenya it is estimated that the average urban Kenyan pays 16 bribes per month. The past 2 regimes have been plagued by major graft scandals namely (i) the Goldenberg Scandal during Moi?s regime which is estimated to have cost Kenya 10% of its GDP and (ii) The Anglo ? leasing procurement scandal during Kibaki?s regime. Embezzlement of public funds, and a system promoting political patronage has also been rampant in the country as evidenced by the recent Devolution Ministry Procurement Scandal. The most affected sectors in Kenya are (i) The Police, (ii) Land services, (iii) Public Administration, (iv) Public Financial Management in budget processes, Public Procurement and Revenue Administration, (v) Judiciary and, (vi) the Private Sector. Recently, President Uhuru has also mentioned that 70% of corruption originates or is instigated by the private sector.

Corruption is an extremely debilitating plague on two fronts. First, it diverts scarce national resources from productive deployment to the benefit of a few. Secondly, it limits economic growth and development by denying opportunities to genuine entrepreneurs while at the same time rewarding tenderprenuers.

According to the Corruption Perception Index 2014, Singapore ranks 7th in the world after decades of fighting corruption. We have picked it as a case study and analyse the steps the government took to battle corruption. The Corrupt Practices Investigation Bureau (CPIB), formed in 1952, is the sole agency responsible for combating corruption in Singapore. It is one of the oldest agencies in the world dedicated to fighting corruption, and its effectiveness in its role has shaped Singapore to what it is today. After independence in 1959, Singapore?s People's Action Party (PAP) government enacted the Prevention of Corruption Act (POCA), which gave the CPIB more powers to fight corruption. As a first step to tackle corruption, the government of Singapore first took initiative to understand the causes of corruption in the country in order to tackle the issue head on. The following were the main causes of corruption in Singapore;

1. **Low Salaries** ? If the official is not to be tempted into corruption, there is a duty on the government to provide benefits that will ensure his loyalty. Singapore noted the disparity in the pay of low ranking civil servants and made reforms to improve their salaries and address this issue
2. **Ample opportunities for corruption** - Presence of excessive regulations together with increased bureaucratic discretion provided opportunities and incentives for corruption in that regulations governing access to goods and services can be exploited by civil servants extorting from groups vying for access to such goods and services
3. **Low risk of detection and punishment** ? Despite corruption being illegal, individuals found guilty of corrupt offences most of the time go unpunished. Corruption thrived in Singapore as it was perceived by the public to be a low risk, high reward activity as corrupt offenders were unlikely to be detected and punished.

Interestingly, these three main causes of corruption in Singapore then are very much present in today?s Kenya. Kenyan civil service salaries are low, the myriad regulations provide ample opportunities for corruption and the cost of corruption is very low since there are rarely any convictions, especially with mega corruption cases. The only new dynamic that we can add is that ethnicity is also a cause for corruption in Kenya because the corrupt have successfully managed to shield corrupt practices as beneficial to their ethnic groups and have rallied their ethnic groups to protect them.

But back to Singapore?

After identification of the problem areas, Singapore embarked on an anti ? corruption strategy that focused on (i) reducing the opportunities for corruption and (ii) reducing incentives for corruption. The strategy revolved around improvement of leadership, policies and administration and the factors that we attribute to the success include;

- **Political Will ?** Political will serves as the main pillar for any reform. Having genuine motives is the key of turning any initiative and reform into a success. For Singapore, the government has matched its words with deeds by mobilizing the public, and the entire civil service to fight corruption. The first order of political will was put in place by the late Lee Kuan Yew when he made it clear that he did not tolerate corruption. In his book, From Third World to First World, Lee says ?We had a deep sense of mission to establish a clean and effective government. When we oath of office at the ceremony in the city council chamber in 1959, we all wore white shirts and white slacks to symbolize purity and honesty in our personal behaviors and public life?
- **Clear Frameworks on Corruption** ? Singapore?s war on corruption revolves around the following four pillars of (i) Effective Anti-Corruption Acts (or laws), (ii) Effective Anti-Corruption Agency, (iii) Effective Adjudication (or punishment) and (iv) Efficient Government Administration.
- **Effective Administration and Good Governance -** Alongside the statutory measures dealing with corrupt offenders, a proactive approach to curb corruption was adopted in the Government

Singapore?s war on corruption has proved to be a success story owing to the Government?s sincere and utter commitment to root out graft as it was consuming the country from within. Its effects is evident as according to the Ease of Doing Business Report 2016, Singapore ranks 1st and in terms of clean government without corruption, Singapore ranks number 7. This is as a result of effective laws and enforcement that keeps corruption at bay.

Kenya in its fight against graft has made some strides though not effective to eradicate it. These initiatives include;

- **Legal frameworks ?** There are several laws enacted that provide a legal framework through which corrupt individuals can be prosecuted. The Anti ? Corruption and Economic Act 2003, as an example, criminalizes active, passive and attempted corruption, as well as foreign bribery, abuse of office, money laundering, extortion, conflict of interest and bid rigging
- **Institutional frameworks ?** The government has commissioned various institutions to handle oversight of Government operations such as (i) The Ethics and Anti ? Corruption Commission (EACC) which was created in 2011 to investigate corruption and economic crimes, (ii) The Kenya National Audit Office (KENAO), whose mandate is to publish audited government reports after they have been presented to parliament, (iii) The Public Complaints Standing Committee which was set up in 2007 to receive all complaints relating to public officials and whose mandate also extends to look into allegations of abuse of office, corruption, breach of integrity and unethical conduct and (iv) The Public Procurement Oversight Authority (PPOA) which is in charge of policy formulation and implementation as well as monitoring and oversight of public procurement to ensure the procurement processes comply with the requirements of the act.

However, in order to succeed, we suggest we borrow two key things from Singapore ? setting a clear and unmistakable political will as the foundation for fighting corruption and secondly, on top of the political will foundation, setting clear frameworks to fighting corruption:

1. First is that we need a clear political will to fight corruption. Just like Lee Kuan Yew?s Singapore, the political will has to come from the very top ? the head of state. President Kenyatta Kenyatta needs to lay a zero tolerance to corruption. In his November 23rd speech, "We have opened a new chapter in war against graft" seems to communicate a political will, but more will need to be done. One of the key distractors of war against graft in this country is ethnicity. Where the will to hold accountable corrupt individuals are weakened due to their ability to use their ethnic support as bargain chips. Luckily for President Uhuru, the average Kenyan is very supportive of anti-corruption initiatives that he does not need any particular tribal king, especially the corrupt one, in order gain broad popular support. A clear, fair and broad based campaign against corruption will gain deep and broad based public support. In addition to what will hopefully be a watermark speech, the president needs to strengthen political will in the following several ways
   i. Make fighting corruption the center piece of his remaining term
   ii. Have a dedicated high profile office in the presidency focused solely on anti-corruption initiative. Just like he had most the Budget office from treasury to the presidency and just as Lee Kwan Yew moved the lead agency on anti-corruption, Corrupt Practices Investigation Bureau to the office of Prime Minister, President Uhuru needs a high profile Anti-Corruption Czar working from the office of the president. Without giving it much thought, we can?t think of a better person than John Githongo. The person cannot be from the system, they have to be from outside the system and with a track record of confronting corruption.
   iii. In addition to an Anti-Corruption Czar, the president needs to have a public reporting mechanism for corrupt practices and have independent sniffing mechanism to identify officials betraying public trust and send names to investigating agencies.
2. Having set a strong foundation of political will, the second step is to set a clear framework to fight corruption. There is no need to reinvent the wheel, the Kenyan Government needs to focus their fight on corruption around the four pillars Singapore did;
   i. **Effective Anti?Corruption Acts** ? The Government on its part has tried to come up with laws governing corruption but it needs to cut across all sectors, public and private. The Anti ? Corruption and Economic Act 2003, as an example, which criminalizes active, passive and

attempted corruption only covers the public sector but not the private sector.

ii. **Effective Anti-Corruption Agency -** The Ethics and Anti ? Corruption Commission (EACC), which was created in 2011 to investigate corruption and economic crimes, has been inefficient as it has failed to effectively lead to the prosecution of even one person since its inception. Fully noting that EACC is a constitutional body, a fresh start with a completely new agency is one alternative or a reinvention of EACC is another alternative. But the public has lost confidence in EACC and it is important that the anti-corruption agency enjoys public confidence. It would also be helpful give EACC prosecutorial powers. In addition to EACC, we also have the investigative functions under the Director of Criminal Investigation and prosecutions under the Director of Public Prosecution. The President has to take a direct and objective interest and evaluate into the probity and effectiveness of these agencies.
iii. **Effective Adjudication (or punishment) ?** The Judiciary in Kenya, as highlighted before is one of the Government arms that is affected by corruption. According to Freedom House (2012), since 2003, only 51 government officials have been convicted on corruption charges. The judiciary has so far seemed credible and enjoys a higher level of public confidence. The key challenge here remains the amount of time it takes to hear cases.
iv. **Efficient Government Administration** - An efficient administration is one which values integrity and incorruptibility. The Kenyan administration needs to embrace values of integrity and service. This serves as the final pillar of an effective campaign against corruption. Even if we have tough laws and strong enforcement, but the government is inefficient in addressing public needs, then opportunities will present themselves for corruption to thrive. For example, it is now a commonly known fact that if you need a Kenyan passport and you are willing to wait for the stipulated processing period, you can just apply and wait and your passport comes out. This is a big improvement from a time when passport processing was highly inefficient and unpredictable.
v. **Improved distribution of resources and improvement in economic inclusion**

Implementing the above strategy will be a great step but following Singapore?s example, systems, structures and processes do not necessarily provide the path for success. The issue lies with sincerity of purpose, genuine efforts and the overall operating climate. Kenya has the structures, systems and processes in place but unless there exists a genuine will on the leadership?s part to succeed, any anti-corruption programme will remain a passive declaration. It is much more a mindset challenge rather than a question of fixing the system.

As Lee Kuan Yew said, ?It is easy to start off with high moral standards, strong convictions, and determination to beat down corruption. But it is difficult to live up to these good intentions unless the leaders are strong and determined enough to deal with all transgressors, and without exceptions.?

Singapore?s GDP per capita in 1960 when Lee Kuan Yew launched the war on corruption was USD 427.9, today it is USD 56,286.8, a 132 times increase. This illustrates the very real benefits of winning the war on corruption.

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