

## Impact of the Election Ruling on the Business Environment

Following the peaceful 2017 General Elections held on August 8<sup>th</sup> 2017, with President Uhuru Kenyatta having been declared president garnering 54.3% of the total cast votes, the National Super Alliance Coalition (NASA) contested the presidential results citing irregularities and illegalities in the election and tallying process; the petition focused primarily on prosecuting the election process. On September 1<sup>st</sup> 2017, the Supreme Court delivered a ruling annulling the presidential results, declaring them invalid, stating that the election was not conducted in accordance with the Constitution and the applicable law, and called for fresh elections to be held within 60-days as per the Constitution. The thrust of the ruling centered on process as captured by the Chief Justice David Maraga that “The greatness of a nation lies in its fidelity to its constitution and strict adherence to the rule of law and above all the fear of God”,

In our topical [Post-Election Business Environment](#) prior to the Kenyan 2017 General Elections, we highlighted our expectation of the immediate business environment post-elections, concluding that we expect the post-election business environment to remain largely peaceful and non-violent. Our conclusion, see details at [Post-Election Business Environment](#), was largely informed by the broad institutional reforms and market sentiments as indicated by the 5 metrics we tracked to monitor the Electoral Process:

- (i) **Integrity and Independence of the Electoral Body**
- (ii) **Integrity and Independence of the Judiciary**
- (iii) **Election Preparedness**
- (iv) **International Presence and Monitoring**
- (v) **Positive Market Sentiment**

We view our analysis as having been vindicated by (i) the dispute of results by NASA , ultimately going to court, with the court having ruled and both parties having accepted the ruling, even though the incumbent government disagrees with the ruling, but shall accept it, and (ii) the markets have been on an upward trend post-elections, with NSE 20, NASI and NSE 25 gaining 6.0%, 4.8% and 3.8%, respectively, in the month of August.

In this note, we highlight the expected impact of the ruling on the economy;

1. **Immediate Business Environment:** Within an hour of the announcement of the court’s ruling, the Kenya Shilling fell by 0.3% and by market close NASI performance had declined by 3.7% for the day, though volumes remained low in the afternoon trading session, with market participants cautious. Given the strong investor sentiment witnessed during the year and during the election period, we expect the market to remain supported as investors take positions given the attractive stock valuations, and on the fact that Kenya’s growth fundamentals remain strong. In conclusion, while business may slow down for the next two months, markets are forward looking and given expectations of non-violent resolution, we expect markets to remain supported.
2. **Execution of Projects by the Government and the Private Sector:** The prolonged election period is also expected to impact the growth of the economy negatively following delays in the execution of projects. Investors have a tendency to take a wait and see approach during the election period attributed to the uncertainty of the transitioning to a new government as well as the possibility of political instability and violence following disputed elections. This is likely to affect sectors such as real estate as has been experienced in previous election periods as highlighted in our report, [Effect of the Election on the Real Estate Environment in Kenya, & Cytonn Weekly #7-2017](#). Additionally, with the next election expected in 2-months, the execution of development projects by the government will be delayed, which will consequently have an impact on the country’s growth.
3. **Long Term Market Fundamentals:** Despite the setback of the court’s ruling on the immediate business environment and the economy, we are of the view that its impact on the long term market fundamentals shall be minimal at worst, but likely to be positive because the ruling affirms two issues that enhances the prospects of Kenya as an investment destination. First, it affirms the independence

of the judiciary, irrespective of the merits of the rulings and, second, it affirms the rule of law, given that both parties have agreed to be bound by the ruling. Judicial independence and the rule of law are essential to a conducive business environment, and this will have a positive effect on the economy in the long term.

***In conclusion, we maintain our view of a peaceful, non-violent pre and post-election environment, having had a largely peaceful election period in the last month. With both the judicial and electoral processes having been tried and tested in the past election, there is a lower likelihood of the presidential elections results being disputed again and we hence expect a peaceful election and a smooth transition thereafter. Despite the immediate and short term impact of the ruling on the economy, we are of the view that the business environment will remain stable in the long term with risks to the upside.***