War Games: The Truth behind the Government’s Sudden Attack on the Sports Betting Industry

By David Ndii

For a government that has earned a reputation for its lackadaisical approach to matters corruption—other than those of its political enemies, that is—the resolute assault it has launched on the sports betting companies is intriguing. According to media reports, it was triggered by the Betting and Licensing Control Board writing to the Financial Reporting Centre asking for an investigation into money laundering in the industry. The Financial Reporting Centre is the unit of the Central Bank responsible for money laundering surveillance.

This sequence of events is suspect. Kenya’s reputation as a money-laundering hotspot is well documented, and the government has been under considerable pressure from the United States government to clean up for a long time. One of the deals underpinning the Jubilee government’s rapprochement with President Obama was a commitment to join the Egmont Group, a multinational collaborative platform for combating money laundering and terrorism financing. The *2019 International Narcotics Control Strategy Report* submitted to the United States Congress by the country’s Bureau of International Narcotics and Law Enforcement Affairs notes that “despite some progress, Kenya has not fulfilled all of its commitments to join the Egmont Group.”

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The point here is that it is difficult to believe—given America's intense interest in this matter—that the betting industry has not been on the government's anti-money laundering radar all along, especially because some of the industry's foreign investors have been cited in connection with money laundering by the American government. This being the case, it stands to reason that the government could have opened an anti-money laundering investigation on the betting companies without much ado. Few would have been surprised. And it is quite unusual for sanctions to be meted out as part of an investigation, because as far as we know, there is as yet no determination that individual betting companies have been found culpable. Even money-launderers who are operating legally are entitled to due process.

It becomes even more confounding when the government speaks from both sides of the mouth. President Uhuru Kenyatta has been quoted maintaining that the investigation is purely a tax compliance matter: "Some betting firms have been hoarding taxes but we have managed to push them to pay and we will continue doing so. Those in the betting companies are our friends but we have to agree the government must get its rightful share to build cultural centres and other developments." It is noteworthy that among the local investors profiled since the onslaught began are prominent establishment figures who featured prominently in Jubilee election campaign financing.

First, just how big is this industry? A government investigation reported the industry turnover at Sh200 billion a year. It is also reported that there are 12 million mobile phone-based betting accounts. But according to the *Finaccess 2019* survey report, 1.9 per cent of adult Kenyans participate in sports betting. The *Finaccess* survey tracks financial inclusion, and is conducted once every two years by the Kenya National Bureau of Statistics in partnership with the Central Bank of Kenya and the Financial Sector Deepening (FSD) Trust. The 2019 survey was administered on a nationally representative sample of 11,000 households.

The figure of 1.9 per cent of adult Kenyans translates to 500,000 people. This in turn suggests that on average, punters spend Sh400,000 per year, or Sh33,300 per month on betting. The average annual wage in 2018, as reported in the Economic Survey, was Sh730,000. If we assume that the punters are spread across the income spectrum, that is, they are not concentrated in the high income groups, it would suggest that punters are spending more than half their income on gambling. This does not seem plausible.

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The Sh200 billion turnover is also inconsistent with the national economic data. The turnover of an industry corresponds to the gross output of a sector in the production accounts. A gross output of Sh200 billion would be significant considering that it is larger than that of "accommodation and food services" which captures the entire tourism, domestic, hospitality and restaurant services. As per the International Standard Industrial Classification (ISIC) the betting economy falls under the "arts, recreation and entertainment" sector. However, in the production accounts published in the Economic Survey, it is lumped together in a residual category ("other service activities") although it is reported separately in the GDP figures (GDP is obtained by deducting intermediate inputs and indirect taxes from gross output). The gross output of "other service activities" in 2018 was Sh154 billion, less than the claimed turnover of betting alone, while the GDP for the "arts, recreation and entertainment" economy is only Sh10 billion. Either the statisticians have missed it altogether, or the Sh200 billion turnover figure is wrong.

SportPesa, reportedly the dominant firm in the industry, has published a statement disclosing its 2018 turnover as Sh20 billion. The only market share figure I could find is reported by the financial market information blog, *The Kenya Wall Street*, which puts SportPesa's market share in 2016 at 76 per cent, and a small online survey of 300 respondents conducted by Linet Kwamboka of Data Science Ltd. in January 2019, in which two-thirds of the respondents gave SportPesa as their main betting platform (*Betting In Kenya, a Menace or an Income?)* These figures suggest an industry turnover in the Sh25 billion to Sh30 billion range.

Even this lower figure does not reconcile with the national economic data. As observed, using the "value-added" approach, the GDP is obtained by deducting intermediate inputs from gross output. In aggregate, these add up to about 45 per cent of gross output meaning that GDP is 55 per cent of gross output. That said, intermediate outputs vary a lot by sector, from 20 per cent in financial services to 70 per cent in manufacturing.

We do not know where the industry falls, but according to a data visualisation published in the *Daily Nation* titled *A Gambling Nation: Betting dominates Kenya's online searches*, the betting industry spent Sh22 billion on advertising in 2018. Advertising expenditure would go into intermediate inputs. This outlay alone would reduce the industry's GDP to no more than Sh8 billion, about three-quarters of the entertainment economy's GDP. Still not credible. The advertising figures are a likely source of this inconsistency. According to the source, the total amount of spending on advertising in the country was Sh132 billion, and the main media on which it was spent were television, print and radio. But the turnover of the entire mainstream media industry in Kenya is no more than Sh25 billion, which begs the question where the Sh100 billion-plus was spent.

There is also another anomaly. Betting is said to have grown very rapidly; for instance, the Kenyan Wall Street blog reports a 2016 turnover of Sh56 billion which has supposedly grown to Sh200 billion, fourfold growth in two years. The rapid growth should reflect in the GDP. It does not. The gross output of "other services" increased by only Sh29 billion over the two years, and the entertainment sector GDP by only Sh2 billion. It does look like the statisticians are not capturing this growth in the national economic data.

An industry turnover of Sh25 billion-Sh30 billion together with the figure of 500,000 bettors estimated by *Finaccess,* translates to an average gambling expenditure of between Sh4,000 and Sh5,000 per month. This is a more plausible figure, and it is also in line with the figures reported by the respondents of Linet Kwamboka's online survey. These figures are telling us that most punters spend between Sh500 and Sh1500 on betting a week—beer money, literary; the Managing Director of Kenya Breweries recently lamented that sports betting has become a serious competitor. By and large, the much-lamented gambling epidemic appears to be no more than substitution of one vice for another. No doubt there are gambling addicts, there always were, just as there are alcoholics.

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We are still left with the Sh200 billion figure though. Where does it come from? The authorities have not been forthcoming on how the figure was arrived at. I see two possibilities: a purely technical accounting issue, and the money laundering dimension. The accounting issue is well illustrated by this account of The Broker, a punter who contributed to this discussion on twitter:

Although The Broker gets the gist of it, his math is actually incorrect. His outlay of Sh10,000 generated three betting transactions totalling Sh22,000 (two Sh10,000 bets and one Sh2,000 bet) and he lost Sh7,000 not Sh8,000. The Sh7,000 is the betting company's total revenue from his betting activity. Let us extrapolate: if we work with the *Finaccess* figure of 500,000 punters, the Sh. 200 billion turnover figure requires an average of Sh33,000 of betting transactions per person per month, which is within striking distance of The Broker's figure of Sh22,000.

The Sh200 billion turnover is being buttressed by another figure, that of the 12 million betting accounts held with the mobile phone companies. If each account represented a unique customer, then those 12 million accounts would be held by half the adult population. We also know that the vast majority of bettors are the youth. The 12 million accounts figure is about the same as the total population of the 20-35 age group, which would suggest that virtually every young person has a betting account. That is a stretch and it stands to reason that some punters will have betting accounts with different companies. Still if we assume that each bettor has four accounts on average, this still translates to three million unique accounts, six times the *Finaccess* figure of 500,000. In its statement, SportPesa gives a figure of 700,000 visitors during the first half of 2019.

Part of this conundrum may be explained by another contribution to this debate on Twitter by one Jerry, who claims to have opened over 10,000 phantom betting accounts. Pressed to explain why, Jerry said that it was paid work. Why would betting companies pay people to open phantom accounts? The readily apparent reason is to inflate the size of the business and by so doing be able to pass off laundered monies as revenue, as would massive advertising and high profile sports sponsorships. It turns out that the betting epidemic may not be as big as it is made out to be and indeed, the *Finaccess* findings may be a more accurate reflection of the size of the industry.

According to a source quoted in the media, the Interior Ministry has "established that three politicians are involved in the business through proxies in the firms suspended on suspicion of money laundering". The article goes on to report one of the issues under investigation as "whether a well-moneyed senior politician is among the shareholders of one of the big suspended firms through a company registered in a tax haven which is being used to launder money stolen from public coffers".

No prizes for guessing who the well-moneyed senior politician is.

It thus appears that the assault on the betting companies, far from being a general money-laundering investigation, is actually part of the weaponisation of anti-corruption to take down the said well-moneyed senior politician. The vitriolic, lawless modus operandi accords with the manner in which this political warfare is being prosecuted generally. As is Uhuru Kenyatta's statement—for the betting companies are indeed his friends who, unfortunately for them, have become collateral damage.

It is also telling, I think, that the onslaught on the betting companies has coincided with the high profile arrests and opening of prosecutions in the Arror and Kimwarer dams corruption case. Among the revelations from the investigation is that the money laundering trail led to London and Dubai—both are members of the Egmont Group.

From this we can infer that the Government was quite happy to cozy up to the industry until the William Ruto takedown opened a Pandora's box. Hitherto, it mattered not whether the betting business is a Sh20 billion or Sh200 billion business, whether it was evading taxes, fuelling a gambling epidemic, or even laundering money for drug lords, human and wildlife traffickers and terrorist networks. You can get away with all that, and even buy protection for all of that, just as long as you steer clear of the struggle for power.

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