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Private Security Companies in Kenya and the Impact of Chinese Actors

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Private Security Companies in Kenya and the Impact of Chinese Actors

Shuwen Zheng and Ying Xia



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ABSTRACT

**SAIS-CARI WORKING PAPER
NO. 44 | FEBRUARY 2021:**

“Private Security Companies
in Kenya and the Impact of
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by Shuwen Zheng and Ying
Xia

This paper examines the development and impact of Chinese Private Security Companies (PSCs) in Kenya. Adopting a qualitative methodology approach, the study begins with an extensive literature review, followed by the findings from a month of fieldwork conducted in Nairobi, Kenya. The first part of the paper illustrates how the private security market is booming, thanks to the increase in global supply and demand. Then, the analysis turns to the legal, policy, governance, and oversight issues that private security contracting raises in both China and Kenya. Summarizing the field interviews with different stakeholders, we review three case studies to evaluate whether current business models used by Chinese PSCs are sustainable, and to what extent Chinese actors have penetrated the local market. We conclude that, as compared with the unprecedented pace of growth of China’s investment in Africa, Chinese engagement in overseas security protection is far behind other sectors. We find that the failure to hold a larger market share is due to fierce competition among PSCs and Chinese investors’ ignorance about security needs. While Western PSCs’ sophisticated security solutions have squeezed Chinese PSCs out of the competition, Chinese investors’ (both state-owned and private-owned) lack of awareness has meant that their security budgets dry up very quickly. In addition to their trade and investment presence in Africa, Chinese policymakers should develop a more integral regulatory framework emphasizing guaranteed systemic security management and emergency response processes.

INTRODUCTION

China's investment in Africa took off after 2000 when China embraced “going-out” (*zou chu qu*) as a national policy, to become the second-largest investor worldwide. Official Chinese statistics suggest growth of almost ten times in terms of foreign direct investment (FDI) flows to Africa in less than a decade (from US\$ 292 million in 2005 to US\$ 3.2 billion in 2014), and by more than twenty times in terms of stock value during the same period (from US\$ 1.6 billion to US\$ 32.4 billion).¹ Following the rapid expansion of China's commercial and political activities in Africa, Chinese citizens and assets have become exposed to threats from transnational terrorism, civil unrest, and anti-Chinese sentiment, making security a priority in the African continent.² However, given the erosion of state capacities and services in many African governments, foreign investors must find external solutions, such as private providers, to guarantee their operations can continue safely.

Social and economic progress will inevitably be constrained until security institutions become more legitimate and efficient.³ Therefore, the capacity to provide security at home and abroad has led to the state's ability to contribute to collective security on both the regional and global scale. For Chinese policymakers, risk management in overseas security protection has increasingly become an integral part of the “going-out” policy framework. The big questions, then, are who provides security for Chinese citizens and how do host countries and private actors contribute to public security in Africa?

Adopting a qualitative methodology approach, the study began with an extensive literature review, followed by a month of fieldwork in Nairobi, Kenya. Specifically, this research compared transnational companies from Western countries (mainly from Britain and Canada) and China, aiming to find how the two sides strategically position themselves in Kenya's private security industry. Starting with several cold calls to companies identified via the internet and yellow pages, we proceeded to the snowball method. We conducted eleven interviews during our fieldwork: four transnational companies, four Chinese companies, two private security industrial associations, and the labor union for private security employees. At each of the companies, we typically spoke with midlevel managers. We used semi-structured interviews, focusing on the company's current market share, business strategies, government lobbying activities, and regulatory efforts.

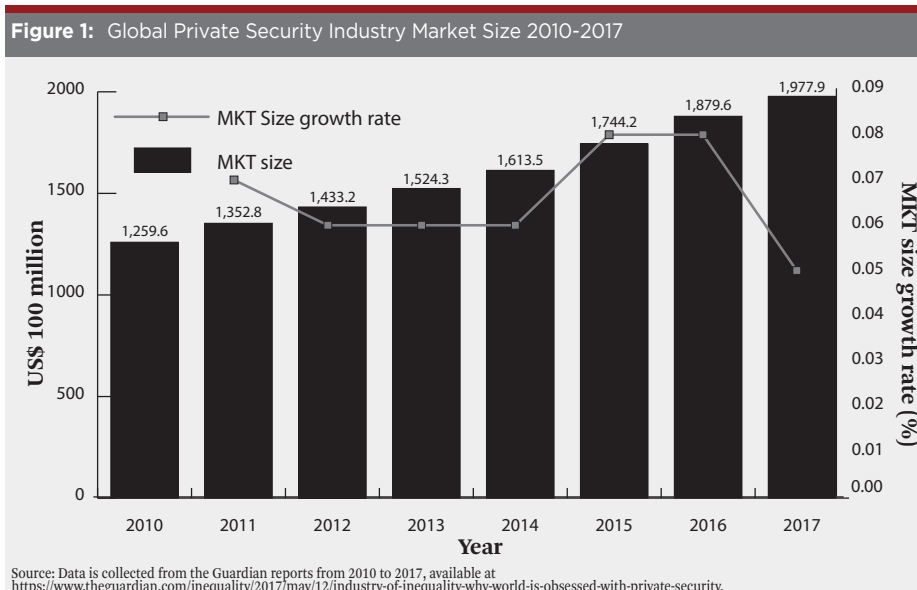
BACKGROUND

INCREASING DEMAND AND BOOMING SUPPLY: THE RISE OF THE PRIVATE SECURITY INDUSTRY

The private security industry is broadly divided between private security companies (PSC) and private military companies (PMC). PMCs specialize in military skills, including combat operations, strategic planning, intelligence collection, operational support, logistics, training, procurement, and maintenance of arms and equipment. PSCs specialize in providing security and protection of personnel and property, including human and industrial assets.⁴ This paper focuses on the growth of PSCs in recent years, especially in the context of global neoliberal governance.⁵

On the African continent, the growth of crime and the rise of the private security industry has coincided with the erosion of state capacities and the states' ability to provide services. On the one hand, declining government expenditures associated with structural adjustment requirements have resulted in the deterioration of the quality of public services, including the provision of law and order. The public armed forces (government, police, and military) are under-funded and police are poorly paid. As such, reports of police involvement in extortion, bribery, and even political intimidation, are common throughout the continent.⁶ Corruption and mismanagement exacerbate unemployment, which then creates an increasingly criminalized environment, resulting in a vicious cycle.⁷ According to the World Internal Security & Police Index, the global average police to civilian ratio is 1:400, and the United Nations recommends one police officer for every 450 citizens.⁸ In many African countries, these ratios are much worse. For example, in Zambia the ratio in 2015 was 1:700 and in Kenya, and according to our interview with the Protective Security Industry Association, the ratio is 1:1,250.⁹ Meanwhile, although Uganda wants to achieve a police-population-ratio of 1:500, their rate as of 2017 was only 1:1,700.¹⁰ People from the developing world have come to rely on external sources, especially private providers, for their daily security needs.

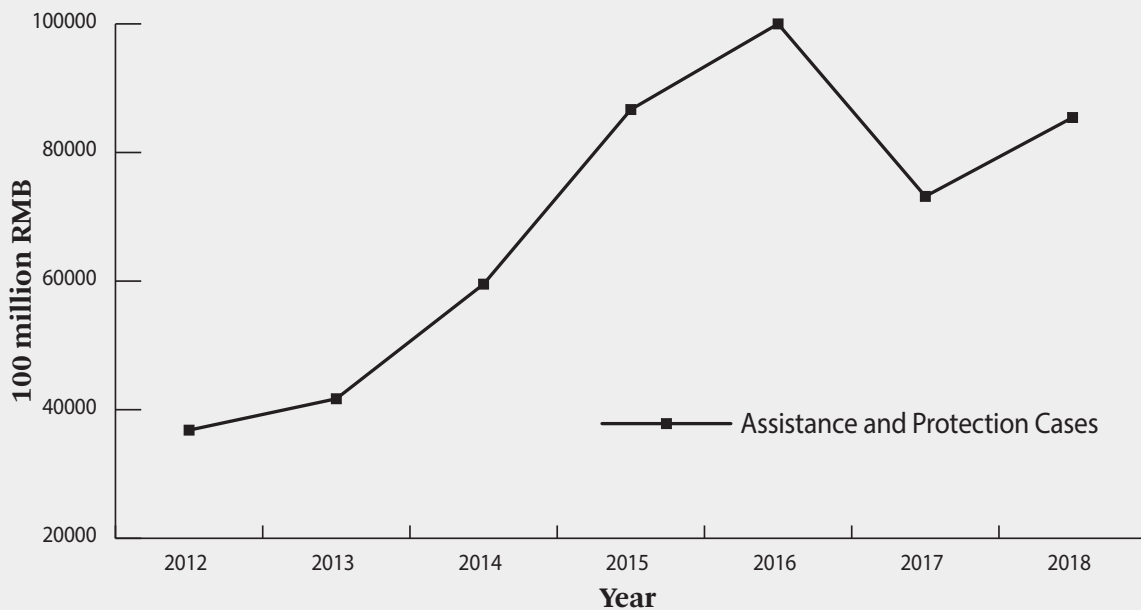
On the supply side, private security has become a lucrative market for both local and transnational companies. In addition to African states' weakness and resource limitations, use of PSCs from the United States and Europe have become increasingly prominent due to these nations' worldwide security commitments combined with domestic military downsizing.¹¹ Estimates suggest that the number of private security guards across Africa is now more than double that of police and government security forces. For instance, in South Africa in 2014, there were 446,000 registered security guards as compared to 270,000 police officers and soldiers.¹² According to a 2016 report by a London-based charity, firms (mostly from the US, Canada, and Britain) have pocketed hundreds of billions of dollars looking after the interests of multinational corporations operating in African countries.¹³ The global market for private security services, including private guarding, surveillance, and armed transport, was worth an estimated US\$ 180 billion in 2016 and was projected to grow to US\$ 240 billion in 2020.¹⁴



CHINA AS A NEWCOMER AND ITS REGULATORY CHALLENGE

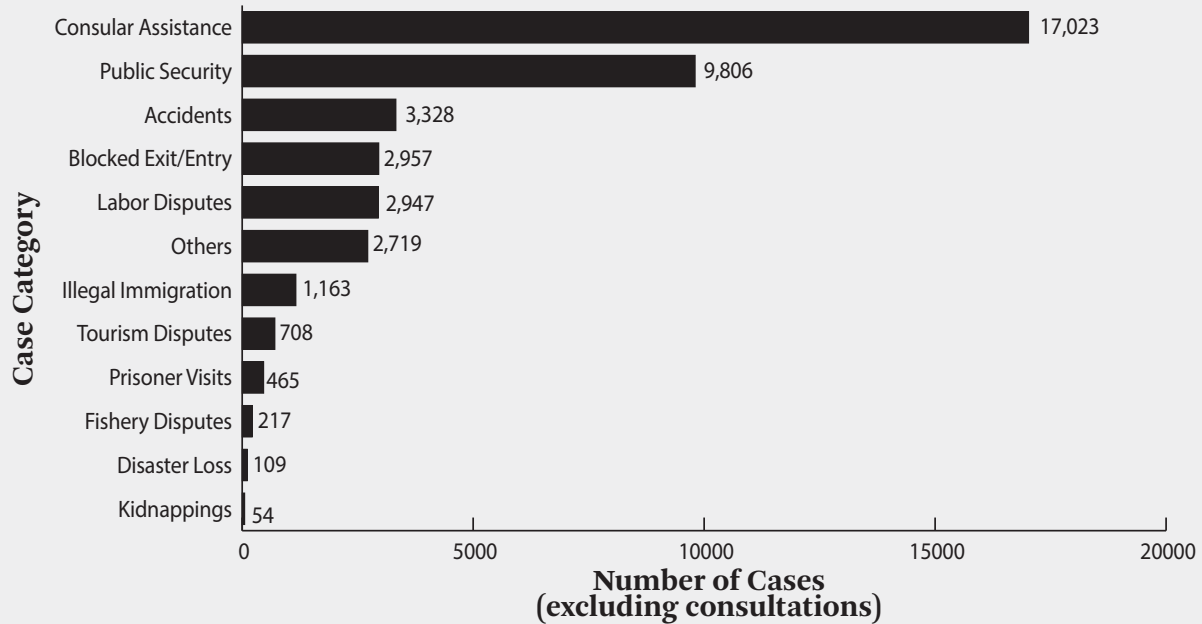
As Nathan and Scobell remarked in their book *China's Search for Security*, “vulnerability to threats is the main driver of China’s foreign policy.”¹⁵ According to the Ministry of Foreign Affairs, about 30,000 Chinese enterprises are located overseas and more than 100 million Chinese citizens travel abroad annually.¹⁶ In 2014, there were some 1,000 terrorist attacks worldwide, of which about 85 percent occurred along the “Belt and Road” and extension areas, involving more than 60 countries.¹⁷ In 2018, the PRC’s Consular Affairs reported having received a total of 41,496 assistance and protection cases; of these only 2,479 were from sub-Saharan Africa.¹⁸ Such a low rate of reporting in Africa might be due to public distrust of African governments, perceptions of corruption, and Chinese embassies’ limited influence in local communities. From 2006 to 2016, there were about 300 recorded cases of violent attacks, including terrorist attacks, against overseas Chinese workers that led to nearly 1,000 deaths and injuries.¹⁹ The actual numbers, as opposed to those officially recorded, could be much higher. Those incidents catalyzed changes in China’s foreign policy, materialized by the concept of “protecting overseas nationals” in the 18th National Congress’s priority list and a strategic reassessment of the longstanding “non-interference” principle.²⁰

Figure 2: Consultation, Assistance, and Protection Cases Reported by PRC Consular Affairs (2012-2018)



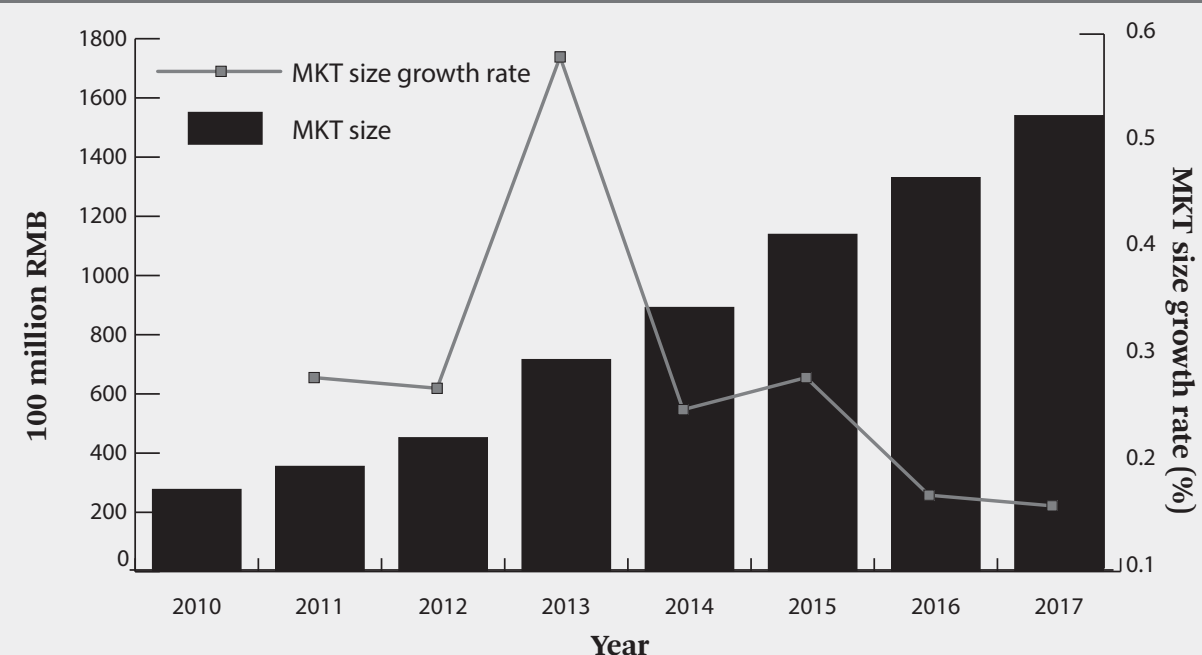
Source: Data is collected from China Consular Affairs' official account on WeChat.

The “non-interference” principle means that when dealing with other sovereign nations’ affairs, Beijing’s preference is to let the UN Security Council take the lead in the global effort to combat terrorism.²¹ For the time being, the People’s Liberation Army (PLA) is not deployed overseas to protect Chinese companies and citizens. As a result, Chinese private security companies are stepping in to fill this security vacuum. As data from the Overseas Security and Defense Research Center in Beijing has highlighted, as of 2016 China only had about 3,200 PSC officers protecting 16,000 companies operating abroad.²² This ratio (1:5) is far fewer than major global security service

Figure 3: 2018 Assistance and Protection Cases Reported by PRC Consular Affairs

Source: Data is collected from China Consular Affairs' official account on WeChat.

providers such as the former US-based Blackwater, which has trained over 100,000 professionals and has more than 23,500 employees worldwide.²³ It is estimated that Chinese companies pay more than US\$ 10 billion annually for protection services worldwide, but Chinese security companies currently hold less than ten percent of the industry's global market share.²⁴

Figure 4: Chinese Private Security Market Size 2010-2017

Source: Data collected from the BoSi Data Research Center, available at www.bosidata.com

The regulation of Chinese PSCs only started recently and has yet to be fully developed. The first and most important law regulating domestic Chinese PSCs was issued in September 2009. “Regulation on the Administration of Security and Guarding Services” legalized PSCs and marked China’s first attempt to establish a regulatory framework for the sector.²⁵ Before 2010, PSCs were not permitted to provide overseas security services; in 2010 the government opened up the previously state-controlled market. The same year, Beijing ruled that all Chinese companies must have adequate security management and protection policies in place before venturing overseas. In 2011, the Ministry of Commerce (MOFCOM), together with seven other ministries and government agencies, issued the first edition of “Work Safety Regulations on Chinese-Invested Enterprises and Organizations Overseas,” seeking to protect the employees working for Chinese foreign affiliates.²⁶ On August 17, 2016, President Xi Jinping emphasized the importance of overseas security protection in a forum promoting construction for the Belt and Road Initiative: “We need to effectively promote safety assurance, improve safety risk assessment, monitoring and early warning, and emergency procedure, establish and improve working mechanisms, refine the work plan, and ensure that the relevant deployments and initiatives are implemented to every department, every project executing unit and enterprise.”²⁷

Following Xi’s speech, “Several Opinions on Improving the Safety of Overseas Enterprises and Outbound Investments” was adopted at the 36th meeting of the Central Leading Group for Comprehensively Deepening Reform in July 2017.²⁸ The document formulated the administrative provisions on the safety management of overseas Chinese-funded enterprises, institutions, and personnel in concert with relevant departments. To further embrace reforms, in March 2018, the MOFCOM Department of Outward Investment and China International Contractors Association jointly issued the “Guidance on the Safety Management of Overseas Chinese-funded Enterprises, Institutions and Personnel”.²⁹ Compared to the first edition published in 2011, the 2018 version



contains a more integral regulatory framework emphasizing a systemic guarantee of security management and emergency response process.

Summarized by a report from the Mercator Institute for China Studies, the strengthening of security regulation in China's global engagement presents challenges for both Africa and traditional Western PSCs.³⁰ First, the blurry line between public and private entities in China complicates matters for host governments. In reality, Chinese PSCs tend to operate with the tacit support and encouragement of the Chinese government and are often staffed by former PLA officers.³¹ Second, Chinese PSCs operating overseas are in a legal grey zone, since Chinese domestic law does not apply to their international activities, and international law lacks regulation. The absence of clear regulation of PSCs' overseas activities at a domestic level has turned China into an outlier among countries with an active private security sector.³² In contrast, countries like the UK that have national neutrality laws designed to control mercenary involvement overseas by prohibiting activity that could drag the UK into a war. Finally, China's use of PSCs to protect its overseas interests is risky. Due to their relative inexperience, there is a high potential for mistakes that could create a political backlash.³³

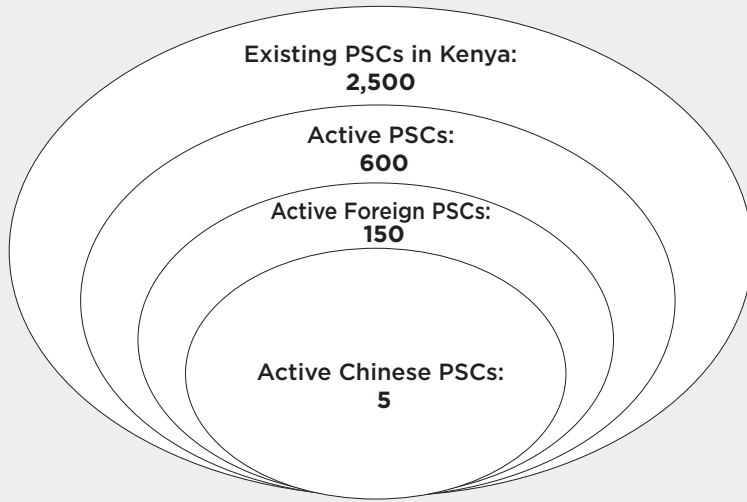
MAPPING THE PRIVATE SECURITY MARKET IN KENYA

Private security firms first emerged in Kenya in the 1960s on large industrial sites. High crime rates combined with public security services' inability to provide adequate protection have been the two main factors driving the expansion of private security.³⁴ Fear of international terrorism following the attack on the US embassy in 1998, the Kikambala Hotel bombing, and Arkia Airlines missile attack in 2002 drastically increased demand for security services, especially among international clients. After the Westgate Mall terror attack in September 2013, when 67 people were killed, the private security industry experienced an exponential boom.³⁵ Outbreaks of post-election violence in 2008, 2013, and 2017, with their horrifying incidents of ethnic massacre and police incapacity, served as a reminder to security specialists and observers alike that the Kenyan security sector was in crisis.³⁶

Private security is one of the biggest employment sectors in Kenya. According to data from the Kenya Security Industry Association, there are about 500,000 security guards employed by 2,500 registered private security firms.³⁷ However, our research indicated that only 600 companies are currently active, of which about 150 are transnational firms. The other 1,900 companies, mostly Kenyan, are collapsing due to the non-payment problem. The transnational firms that hold most of the market share and the most influential groups are the "Big Eight" – Group 4 Securicor (G4S), K.K. Security, Wells Fargo, Bob Morgan (B.M.) Security, SGA Security Group, Ultimate Security, Pinkerton's Kenya, and Radar Security. The "Big Eight" compete in a wide range of customer sectors across mining, oil and gas, retail, energy, agriculture, and financial services.³⁸ Within this same market, only five Chinese owned PSCs are currently active.

K.K. Security and G4S dominate the private security market in Kenya. Originally started in Nairobi, K.K. Security currently employs over 25,000 staff across East Africa (11,000 in Kenya). In 2016, K.K.

Figure 6: Market Size, Number of Existing PSCs in Kenya



Source: Data collected from the author's interview notes

Security was officially acquired by GardaWorld, a privately-owned security company from Canada.³⁹ K.K. Security now functions as an integral part of GardaWorld's African network. G4S, K.K. Security's biggest competitor, is the world's largest PSC and the biggest employer on the London Stock Exchange.⁴⁰ According to the Freedonia Security Services Report, G4S' Africa market reached US\$ 8 billion in revenue in 2017, with the largest shares in South Africa and Kenya.⁴¹ Currently, G4S is present in over 110 countries with 117,000 employees, and 54,600 of those

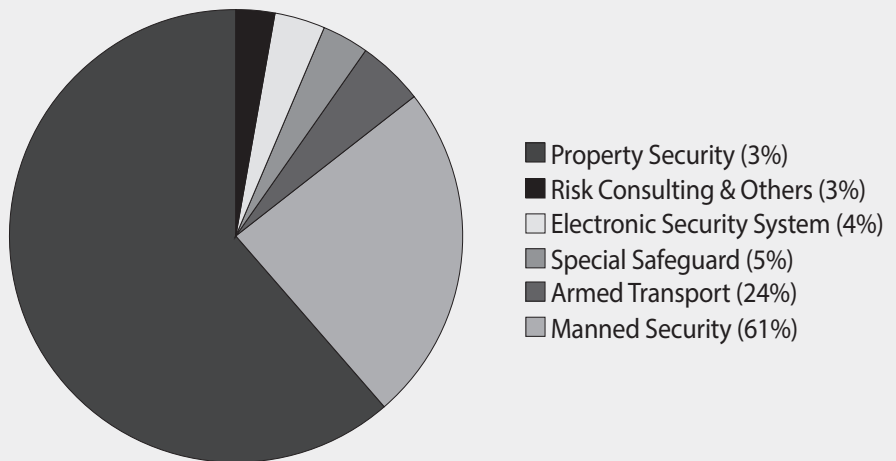
workers are spread across twenty-four African countries.⁴²

A typical PSC is usually comprised of four major business segments: armed transportation and logistics, manned security services, risk consulting, and tracking services. The biggest profit margins are generated from transportation and tracking services, while manned security contributes the most in creating jobs. In recent years, PSCs have been increasingly competing for cooperation with Chinese companies like Huawei and large construction state-owned enterprises (SOEs). However, Chinese companies have not become Western PSCs' major clients yet. Using the market penetration strategy, G4S once hoped to become a sub-contractor for Chinese PSCs, but this has not worked effectively.

MANNED SECURITY SERVICES

Manned Security Services refers to guards who provide the physical presence of the security industry, and are the most visible segment of PSCs in Nairobi. Clad in uniforms of various colors and designs, private security guards are common at banks, company premises, gated residential estates, foreign embassies, hotels,

Figure 7: Global Private Security Market Structure



Source: Data collected from Beijing Intelligence Research Group's industry dataset, available at <https://www.chyxx.com/industry/201809/681451.html>.

restaurants, shopping malls, churches, and private schools.⁴³ Many of them are equipped with batons, body scanners, and guard dogs. These security guards watch, scan, and search visitors and vehicles entering the premises depending on locations. The main providers of manned security services include G4S (approximately 60 percent of market share), K.K. Security, and B.M. Most Chinese PSCs also provide manned security services. The main clients using manned security services include corporate companies, expatriates from international institutions (such as USAID and the UN), and private residents. The largest contract comes from the US Embassy, which employs nearly 9,000 security guards. Most transnational PSCs no longer contract with the Kenyan government as its client because of the government's reputation for non-payment. Since current Kenyan law prohibits PSCs from arming their staff, security personnel must work closely with the Kenyan police.⁴⁴ In a typical case, once security guards detect a threat or danger, they activate an alarm system by pressing a panic button. The guards then lock themselves in a secure location to ensure their safety. After the control center receives the alarm, it will notify the closest police station, and the police typically arrive within ten minutes.

ARMED TRANSPORTATION

Armed Cash Transportation is the physical transfer of banknotes, coins, credit cards, and value items between cash centers, banks, ATM points, and any other premise holding large amounts of cash.⁴⁵ Only four companies are qualified to provide this service due to the Kenyan government's strict requirements. First, the company must have "financial muscle", i.e., sufficient deposit guarantees in the Kenya Central Bank. Second, companies must have long-term, close relationships with the clients, which mostly include commercial banks like Equity Bank, Standard Chartered, and Kenya Commercial Bank. Third, companies need to use a specialized vehicle design, which can include a bulletproof and heavy, robust truck-based body. Each armored vehicle has a driver and an armed Kenyan police officer for every mission, followed by an additional vehicle with three armed police officers. G4S occupies 70 to 80 percent of this market, and Wells Fargo services most of the remainder. Cash transportation comprises 20 percent of G4S's operating capital and 40 percent of its revenue source.⁴⁶

RISK CONSULTING AND ELECTRONIC SECURITY SERVICES

Risk Consulting is a lucrative sector within the private security industry. A transnational security firm increases its potential for global expansion if it can provide integrated risk analysis for clients, especially those operating in developing countries. Global corporations rely extensively on political risk analysis to safeguard their operations. Although some companies have security divisions, many in the current market access these services via consulting firms and think tanks such as Control Risks, Kroll, or the Eurasia Group. These consultants are expected to provide comprehensive risk-management services and business intelligence about international threats affecting company interests or compromise local operations and personnel's safety.⁴⁷ Specific consulting services include security auditing, market intelligence, and risk assessments.⁴⁸ Electronic Security Services (ESS), such as closed-caption television (CCTV) surveillance solutions

and biometric technologies, is an emerging business sector. The ESS market has benefited from the Kenyan technological boom, with increasing video surveillance equipment being deployed.

TRACKING SERVICE

K.K. Security currently dominates the tracking service market, which comprises vehicle tracking, personal tracking, and an integrated canine training system. The three major tracking services include information (mostly by way of daily reports), protection, and fleet management.⁴⁹ K.K. Security's Mobile Response Team tracks over 8,000 vehicles in commercial sectors, mainly protecting passengers from car high jacking. They own 64 vehicles for patrol purposes, each equipped with three security guards and one police officer. The operation is backed by twelve computers and six tracking desks, which are responsible for dispatch (associates with the "panic button" service), emergency and medical tracking (EMT), regional monitoring, executive and escort services, and fire alarm tracking.⁵⁰ About 6,000 to 7,000 residents subscribe to Nairobi's panic button services, bringing in a profit of US\$ 50,000 per month. Canine protection and detection services complement K.K. Security's manned guarding and response services. K.K. Security owns about 840 dogs in Kenya, 350 of which are in Nairobi.⁵¹ Clients include embassies from the US, Australia, and Sweden. In cooperation with the Kenyan army, K.K. Security has also sent dogs to other countries.

FINDINGS: CHINESE PRIVATE SECURITY COMPANIES

Currently, Chinese PSCs only operate in the logistics and manned security sectors in Kenya. During our fieldwork, we discovered five Chinese PSCs in Nairobi: DeWe Security, Frontier Service Group (FSG), China Security Technology Group (CSTG), Dragon Security, and Riskon International (*Ke Wei Ke Xian*). Of these, only the first three are still active in the market since Dragon Security has suspended operations and Riskon appears to exist only on paper. Dragon Security's

Table 1: Summary of the Five Registered Chinese PSCs in Kenya

Company	Legal Status	No. Employees	Business	Local Registry Completed (Y/N)	Training Academy in China (Y/N)	Parent Company in China (Y/N)	Other Branches in Africa (Y/N)
Frontier Service Group	Corporation	~400	Logistics (Aviation)	In process	Y	Y (Hong Kong)	Y
Beijing DeWe Security Services	Partnership	~2,000	Manned Security	Y	Y	Y (Beijing)	Y
China Security Technology Group	Corporation	~50	Manned Security	Y	N	Y (Hong Kong)	Y
Dragon Security	Partnership	~10	Manned Security	In process	N	N	N
Riskon International	Sole Proprietorship	~5	Risk Consulting	N	N	N	N

Source: All information was collected from field interviews and online resources.

suspension is due to issues with the staff's work permits. In October 2018, five Chinese nationals from Dragon Security were arrested; these arrests were made public via an unusually high-profile announcement for what were apparent immigration violations.⁵² We could not find any physical offices for Riskon International and all their online information stopped updating in 2016. Our interviewees mentioned another Chinese PSC in Westlands, but we were unable to find any matching company.

Individual case studies focused on evaluating business sustainability. The evaluation criteria included the PSCs' origins and legal status, business size, services provided, client source diversity, market share, training capacity, and localization challenges. Specifically, the first case uses CSTG to illustrate how the business registration process works as well as operation challenges a typical Chinese PSC may face. The second case study looks at security for the the Mombasa-Nairobi Standard Gauge Railway (SGR). As the largest and most important infrastructure project contracted to Chinese firms in Kenya, the SGR's security merits detailed analysis. Finally, the third case study explores how Chinese Frontier Services Group has pursued the possibility of international cooperation.

CASE STUDY 1 – CSTG'S REGISTRATION EXPERIENCE

This case study aims to reveal Chinese PSCs' struggles to gain a foothold in the private security market in Africa. As a typical Chinese PSC, CSTG is characterized by its' small business scale, PLA military background of its founders, strong national government connections of the parent company, and a project-oriented operation in foreign markets. In most cases, Chinese PSCs only provide services to a foreign country to meet client needs, often project-based, and leave as soon as the project is finished. CSTG, however, chose to localize in order to seize opportunities arising from growing Chinese presence in Kenya. In business, localization is the process of adapting content, products, and services to the local market. There are many barriers a foreign PSC may face when launching in the Kenya market. Legal issues, logistical hurdles, and cultural and communication challenges can slow things down.⁵³ Localization can overcome cultural obstacles and help Chinese PSCs avoid potential cultural *faux pas* that could be detrimental. CSTG's case study analyzes the difficulties a small foreign PSC faces when localizing in Kenya by reviewing the time-consuming registration procedure. To compete with western PSCs' in terms of market penetration, Chinese PSCs have developed integrated security service systems. However, budget constraints seem to have hampered further exploration of the market potential.

As the wholly owned subsidiary of Beijing Huatai Zongheng Investment Management Co., CSTG was incorporated in Hong Kong in June 2016.⁵⁴ CSTG has six branches in Kenya, Pakistan, Sri Lanka, Nigeria, Iraq, and Mozambique. The Kenya office is located in a private villa in Nairobi. The core management team is made up by five Chinese managers and security officers, all of whom have previously engaged in peacekeeping or disaster relief in developing countries. Annually, CSTG recruits about forty local employees on one-year contracts; security officers take day and night shifts in turns. CSTG's main clients were inherited from Dragon Security when their founder was arrested due to the lack of a valid work permits for their personnel. The clients are all Chinese

enterprises and agencies, including Sinohydro, Power Construction Corporation of China (PCCC), Gezhouba, Xinhua News Agency, China Wu Yi Industrial, and the Confucius Institute.⁵⁵ CSTG only has six or seven long-term clients, and all of those are small contracts in terms of budget and the number of security guards used.

The training provided to local security guards is very informal. Training is usually scheduled once per month for about an hour at a time. Since CSTG does not own a base to conduct professional training, it usually hosts trainings in the backyard behind their villa. The training includes standard standing posture, Chinese language learning, and general risk management education. In addition to uniforms, security guards are equipped with body cameras, which offer real-time information when used by guards on patrol or other assignments. The informal training and the small security teams limit CSTG's services to simple tasks, such as patrolling Nairobi's China Town, auto repair factories, private houses, and construction sites.

In terms of registering a company, there are several restrictions that make business legalization a long process in Kenya. First, according to the 2016 "Private Security Regulation Acts", a foreign company must satisfy registration requirements in terms of shareholdings and labor relations to get a business license.⁵⁶ Specifically, the Act restricts foreign participation in the private security sector by requiring that at least twenty-five percent of shares in private security firms be held by Kenyans. To satisfy this first requirement, CSTG acquired a local company named "SOLID Security Limited," a family business composed of three members. Second, the "Labor Relations Act" states that the minimum wage in the private security industry should be Ksh 13,000 (about US\$ 130) per month.⁵⁷ This number changes on an annual basis according to Kenya's consumer price index. Finally, due to the constantly changing policies released from the Kenyan regulating office, CSTG took more than a year to get the Unified Business Permit from Nairobi City County and the certificate of registration from the National Social Security Fund. The Unified Business Permit consists of a trading license, a fire clearance certificate, an advertising signage license, health certificate, and a food hygiene license. It is required on the local level, where the various county governments in Kenya are responsible for issuing. The certificate of registration, on the other hand, is required by the national government, which reflect the bureaucratic red-tape PSCs have to cut through.

As mentioned initially, the main challenge for a newly registered foreign PSC is the difficulty expanding the scale of the business. Most Chinese companies are located in remote suburban areas. However, most clients choose to work with security companies located closest to them to save on their budget. Consequently, CSTG's "targeting at Chinese clients" strategy does not work. It has not joined any industrial association because it is too small to meet the minimum membership requirements.⁵⁸ Such professional isolation has meant that CSTG cannot keep up with policy changes in Kenya and makes it difficult to establish a solid reputation or build a mutual relationship with local communities.

CASE STUDY 2 - SGR AND SECURITY OPERATION BY CRBC AND DeWe SECURITY

Implemented by the China Road and Bridge Corporation (CRBC), SGR is the largest infrastructure project in post-independence Kenya, worth US\$ 3.2 billion. By boosting local demands of goods and services, SGR has benefits for the relevant Engineering Procurement Construction contractor and numerous Chinese and local companies, including private security service providers. SGR's security work was divided into two stages, construction and operations, and both have involved DeWe's participation. The stimulation of SGR-related business was certainly one of the many drivers for China to finance the project. However, many on-the-ground deals are either unplanned or uncoordinated among Chinese companies.

The second case study reviews the challenges and solutions involved in safeguarding SGR's construction and operation phases. Our analysis finds three important takeaways. First, DeWe's security plan during the construction period had a strong resemblance to the way the PLA's military deployment is managed. In this setting, private security is not simply a junior partner to the state but instead acts as a key component in the state forces' operations. Second, CRBC operations that work with the Kenyan government, PSCs, and the police force requires "a high degree of cultural sensitivity and diplomatic skills," which is a delicate task.⁵⁹ Finally, the Kenya police are paid supplementary wages by the Chinese company, and supervised by local PSC officers, but continue, in principle, to take orders from their police commanders. This creates an interesting contradiction between public and private authority, as well as responsibility.

Table 2: Overview of Security Work in Construction and Operation Phases

Phase	Responsible Party	PSC Participants	Police Hired (No.)	Police Bonus Financier	Security Guards Hired (No.)	Responsibility	Challenges
Construction	CRBC and DeWe	DeWe	1,500	DeWe (reimbursed by CRBC)	2,000	Ensure personal safety of CRBC's employees	-Labor division and deployment. -Design of patrol routes.
Operation	CRBC (supposed to be the Kenyan government)	DeWe and K.K. Security	600	CRBC (reimbursed by Kenyan government)	2,000 - 3,000	Manage safety issues along the railway	-Lobbying the government. -Lack of budget. -Local community engagement.

Source: All information was collected during interviews with DeWe and CRBC.

DeWe's COMPREHENSIVE SECURITY PLAN FOR THE SGR

DeWe Security is a private security firm founded by a group of former military officers in the early 2010s.⁶⁰ Given DeWe's connection to the military and the Ministry of Public Security, they have been able to secure contracts for several government projects.⁶¹ The contract with CRBC to provide security services to the SGR was negotiated between the parent company and CRBC headquarters

in Beijing, rather than in Kenya. In Beijing, DeWe operates a security training school, which has trained tens of thousands of personnel. DeWe's former manager told us that since the early 2010s Chinese oil companies had a requirement that all of their Chinese employees had to receive a two-week long security training before being dispatched overseas, due to the increase in the number of security incidents involving Chinese overseas oil investments in Africa.

To provide quality security services to the SGR, DeWe employed an expert who was previously contracted as a security consultant for the Beijing Olympic Games. Together, they developed a "comprehensive security plan" for the SGR, including personnel security, goods security, technology security, and security coordination. The SGR security service's contract value was not disclosed, but we learned that DeWe employed over 2,000 personnel for the SGR project during its construction. The security system used had four layers: a Chief Security Officer and one party secretary who both reside in Nairobi; ten Security Officers, each responsible for supervising security affairs at one construction division; three to four dozen sub-division security officers responsible for respective campsites; and 2,000 security guards. Half of the security guards were recruited by DeWe directly, and the other half were temporarily transferred from other local security firms. In addition, the government provided 1,500 armed police officers to coordinate with DeWe. The arrangement was made between CRBC and the Kenyan Police, but DeWe was responsible for managing the division of labor and designing patrol routes for the police. In theory, the Kenyan Police had agreed to pay a bonus of US\$ 150 to each policeman per month. However, in practice, due to the financial constraints facing the Kenyan government, DeWe had been advancing this payment and expected to be reimbursed by CRBC.

During the construction phase, there were several security incidents, including attacks carried out by the local Masai community as well as some terrorist threats. Since DeWe's security guards do not carry weapons, their main job was to ensure CRBC personnel safety, especially Chinese employees. They would set up barriers to prevent the attackers from entering the camps, while the police were responsible for guarding outside the camp. Since the SGR was a once-off project arranged by DeWe headquarters, most of DeWe's security officers returned to China after the construction of the SGR was completed. This comprehensive security model, which was utilized during the SGR construction phase, has not been extended either to the SGR operational phase or to other projects in Kenya.

CRBC'S ROLE DURING THE OPERATION PHASE

Africa Star Railway Operation Company (ASROC), a subsidiary of CRBC, is in charge of operating the SGR. From the outset, CRBC made it clear that they were not interested in operating the SGR. However, expectations from both the Chinese and Kenyan government pushed CRBC to continue managing operations. As such, it has become a political obligation for CRBC. ASROC currently has 2,000 to 3,000 Kenyan employees and about 600 Chinese employees, most of whom are recruited from different Chinese railway bureaus. ASROC's main task is to manage safety issues along the railway, including monitoring sabotage on key infrastructure, preventing or addressing theft, managing terrorism threats, and keeping wildlife away from the railway tracks. ASROC hires about

400 security guards from different PSCs to ensure security for their personnel. On average, ten to twelve guards are located along each railway station. Security guard duties include guarding, on-spot patrol, security inspection, and implementation of other security regulations. PSCs include DeWe's Kenyan subsidiary, K.K. security, as well as other local security firms. K.K. security takes charge of security in SGR's two main terminals in Nairobi and Mombasa. K.K. was given these higher profile stations because their security guards are considered to meet higher standards, as their guards have attained relatively high education levels and as a group, in terms of height and weight, have a standardized appearance. Due to budgetary constraints, ASROC utilizes less expensive services from five local PSCs along the rest of the terminals on the SGR.

With higher risks with lower returns, securing railway operations is more complicated than providing security for the construction industry. The challenges include, but are not limited to: adjustment of the number of staff, the geographic range of supervision, the role the Kenyan government and Kenya Police's dereliction of duty plays, constrained security budget, media relations, and how long the localization process can take. During the construction period, staff is increased or contracted with tremendous flexibility based on the project needs. Security management was shared among ten construction divisions, their main duty was to prevent construction disturbances. For instance, upon receiving a security alert about a terrorist attack, the management center simply ordered construction suspension, and all employees were moved. However, in the operation period, safety management is a continuous activity. The management team is tasked with covering the entire railway line and even neighboring areas.

Lobbying the government has been the most difficult challenge for ASROC. The Kenyan government has, to date, still not come up with a clear police force deployment plan. During the construction period, security was the corporate responsibility of CRBC, so CRBC actively undertook initiatives and cooperation with the Kenyan police went more much smoothly. During the operation phase, the Kenyan government is responsible for ensuring security as part of their duty to provide public services. As a foreign business corporation, CRBC is only supposed to serve as a complement. There are about 600 railway police on-site; they are supposed to hold the front line when specific risks are present. However, the railway police lack knowledge about railway operations and management capabilities, so they cannot act independently. The railway police are paid Ksh 15,000 (nearly US\$ 150) per month on top of their base salary. This bonus is supposed to come from the government budget, but due to the long-existing non-payment problem, ASROC has been advancing that amount to the police.

A limited security budget is another challenge commonly seen on the ground. Chinese foreign investments seem to include a certain range in their security budgets, but no strict requirement exists on what percentage security needs must occupy.⁶² The operation contract stipulates that ASROC is allowed to spend up to US\$ 10 million per month to cover all operational costs, including for maintenance and services. The Chinese government keeps pushing CRBC to increase their security budget after Nairobi's terrorist attack in January 2019. Chinese leaders from seven ministries and commissions visited the operation site and urged CRBC to build a surveillance system along the entire railway. The cost is estimated to be hundreds of millions of RMB, and

ASROC may apply for an additional budget from China Communications Construction Company, the parent company of CRBC. ASROC has also suggested the Kenyan government apply for China's government aid for railway security and surveillance.

Apart from negotiations with the government, Chinese PSCs often face challenges in community engagement and media relations since the PSCs themselves do not pay enough attention. ASROC has realized the importance of localization. It mainly focuses on raising protection awareness among local communities through public education. Since ASROC insists the SGR is an operation that serves the public interest (even though they are paid to do so), everything they do falls under social responsibility. Therefore, ASROC contends that there is no need for extra media exposure to publicize corporate social responsibility. ASROC's strategy is to not respond to the negative reports and work with the Kenya Railways Corporation (KRC) to educate the public about SGR's benefits (e.g., high quality of passenger services, massive job opportunities, and other social-economic effects). Working with KRC related education institutions, ASROC has invited college instructors from China (such as the Southwest Jiaotong University of China) to give lectures and provide training for local employees. ASROC also developed a budgetary plan to cut down Chinese employees' wages and increase the share of local staff on the management team, to address inequities and imbalances in the current employment structure.

CASE STUDY 3: FSG AND CITIC'S GRAND STRATEGY

The last case study explores the possibility of international cooperation. Chinese PSCs' lack of understanding of local politics and sensibilities has prompted many Chinese security firms to seek foreign partners when undertaking overseas projects. However, there is still a long way to achieve a win-win result in these partnerships.

Frontier Service Group (FSG) is a Hong Kong-based company founded in 2014. It was founded by Erik Prince, the former US Navy SEAL who created Blackwater. Blackwater, a private security firm, played a major and controversial role in the US wars in Iraq and Afghanistan.⁶³ After China International Trust Investment Corporation (CITIC), an SOE, acquired majority shares of FSG in 2015, Prince became the vice-chairman, and CITIC started to take the lead in actual operation.⁶⁴ As an SOE, CITIC's involvement reflects the government's concern about the safety of both personnel and property belonging to Chinese enterprises overseas. Since the PLA cannot provide direct protection, enterprises like FSG are tasked to take on these responsibilities. CITIC intends to downplay the connection with Prince, Blackwater, the controversies surrounding Blackwater's use of force and its military role, and eventually "truly represent Chinese security power in overseas markets."⁶⁵ In 2018, the company announced that new investments from shareholders "will be utilized to expand Frontier's global office footprint, expand teams, grow its asset base, and support operational working capital requirements for projects across the Belt & Road."⁶⁶

Currently, FSG has eight global branches, including a management center in Beijing, a logistics center in Shanghai, and a security management center in Dubai, where Prince built his foreign security officers' force. About twenty employees are on Kenya's management team, including

officers from Britain, Turkey, and China. FSG purchased the International Security Defense College in Beijing, which provides two-month enclosed training for PLA veterans who later become security officers for FSG's global branches. Guided by Prince, the school's promotional materials boast that Frontier has trained more than 5,000 Chinese military personnel, 200 plainclothes police officers, 500 SWAT (special weapons and tactics) specialists, 200 railway police officers, and 300 overseas military police officers.⁶⁷

FSG's four major security services in Kenya are all in the early stages. The first and focal service is air transport. FSG purchased Phoenix Aviation, a Kenyan aviation firm that owns ten to twelve civil aircrafts, each with a five to twelve passenger capacity – for their aircraft leasing business. Phoenix Aviation enables FSG to transport officials from the United Nations or the US military's Africa Command.⁶⁸ With such transportation capacity, FSG once made a contingency plan for Huawei's Sudan team. FSG also provided emergency evacuation services for Chinese firms facing dengue fever outbreaks in Angola. The current aviation services focus on providing private tours for individual celebrities and official tours for international institutions such as the UN and the African Union. However, the leasing payment is constantly delayed. The second branch of services FSG provides is security consulting and risk management. Upon the Chinese embassy's recommendation, CRBC hired FSG to conduct auditing in SGR related security matters. Third is physical security, in particular VIP close protection. FSG signed short term contracts with local safeguards, and the major clients are Chinese SOEs.⁶⁹ Fourth is insurance, which mainly covers properties, personal safety, and construction equipment. With CITIC's support and years of experience, insurance will likely become one of their major revenue sources.

As a listed company on the Hong Kong Stock Exchange, FSG's major challenge comes from concerns about investment returns. The marginal profit in private security, especially manned security, is very limited. Even with sufficient capital and government support, FSG has not yet shown continuous profits. For Chinese clients, the limited security budget among Chinese investors hindered FSG to expand revenue. In China, the security budget is usually one to two percent of total project value, far less than international conventions (which usually range from three to five percent). For international clients, although contracts from the UN are worth millions of dollars, FSG does not have an outstanding advantage to compete with other transnational PSCs. To continue fulfilling the government mission as the flagship Chinese overseas security guard, FSG's responding strategy is to develop multiple infrastructure projects (i.e., road construction and oil-gas exploitation) and eventually form an integrated system. This should, in turn, nurture the security business by hiring security guards inside FSG and purchasing insurance. The projects that are being built will hire FSG to secure the ventures and those same ventures will purchase insurance from FSG.

CONCLUSION

The policy deficiencies reflect the fact that Chinese policymakers do not have a fixed blueprint for overseas security management, but rather tend to respond to on-the-ground emergencies.⁷⁰ The success of DeWe in Kenya appears to be “a one-time thing” and Chinese PSCs still have a long road

ahead before they are deemed to have successfully penetrated the Kenyan PSC market.⁷¹ The investment barrier comes from three dimensions: institutional voids from Kenya's security privatization process, China's immature overseas security regulation, and Chinese investors' low awareness of how to manage security affairs.

Privatization, outsourcing, and public-private partnerships have become commonplace since the 1970s, as governments have sought to streamline "bloated" bureaucracies and tighten welfare budgets.⁷² A new form of networked governance involves "a shift toward a new model of government less involved in direct service provision, and more focused on managing and organizing devolved centers and resources".⁷³ In this sense, PSCs serve as a "third sector" of security provision, operating alongside the state's policing and punitive institutions. In Kenya's case, the major problem in the private security industry lies in the asymmetry in public security and private security. There are 600,000 to 700,000 security guards in Kenya, while there is only a 100,000 person police force on site.⁷⁴ As a result, security guards in more and more cases have to conduct various risky missions, making industry standardization an urgent task.

To put Kenya's private security market in order, several issues need to be addressed including: disputes involving the design of training curriculums, minimal wage struggles, a decision on whether security guards should be armed or not, and the government's reoccurring non-payment problem. Throughout the lobbying process, the conflicts between small local PSCs and large transnational PSCs become increasingly severe. Companies like G4S strictly follow the minimum wage standard, provide well-equipped uniforms, and invest heavily in training for their long-term workers. Meanwhile, most local PSCs only hire casual workers who have no contractual guaranteed hours of work, with lower wage levels where no previous training or experience is required. As a result, small PSCs can offer a lower price in the open tender so that they win the bid, which ultimately means workers for larger PSCs lose their jobs and serves as a disincentive to the investment required for more intensive training. Although small companies are struggling, stakeholders from labor unions and industrial associations advocate that they should be squeezed out of the market since they do not comply with the rules.

The paradox is clear: the market for force created by increased reliance on PSCs weakens public security foundations and only a fraction of the general population can afford these private security services. As the UN describes it, "a dual reality where there's little public police protection for the majority of citizens, and much better security for the wealthy few," has become common across Africa.⁷⁵ In Kenya, the government has showed its eroded state authority through the security privatization process. For instance, at the end of 2016, President Uhuru Kenyatta ordered the Ministry of Labor to shut down all PSCs that flouted the law on minimum wages. However, since then there has been no follow-up policy to further regulate the market.

Chinese companies remained silent during the lobbying process. To be fair, lobbying is not a common domestic practice in China and such silence demonstrates how Chinese actors are very much still on the learning curve. Chinese PSCs, just like other Chinese investors, seldom realize how critical local NGOs and industrial associations can be in lobbying the government, nor do

they notice the significance behind those negotiations. In fact, localization is vital to further develop market cultivation and sustainability, especially in the face of strong competition from traditional western PSCs. It will likely take another five to ten years to realize localization, which is a process that is not limited to only increasing local hiring, but also involves risk management, public relations, and community engagement. On the other hand, Chinese companies, in general, have a low awareness of the management of security affairs. Private enterprises have primarily focused on profit maximization and face more financial constraints themselves. For SOEs, although the Chinese government has increasingly emphasized security management, bureaucratic rigidity makes it very difficult to increase their budgets for security affairs.

Ultimately, Chinese PSCs are still relatively inexperienced and struggling to gain a foothold. They are further encumbered by both Kenyan and Chinese government limitations. They face the additional challenge that Chinese companies (their primary client base) have funding constraints and lack the foresight to understand their own security needs. ★

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