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REPORT AND RECOMMENDATIONS FOR PRIVATE SECTOR EXPORT PROMOTION ADDENDUM TO FINAL REPORT

SUBMITTED TO USAID/KENYA

May 16, 1986

BY
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May 16, 1986

Mr. Charles Gladson
Director
USAID Mission/Nairobi
Kenya

Dear Mr. Gladson:

ADDENDUM TO "REPORT AND RECOMMENDATIONS FOR ASSISTANCE IN PRIVATE SECTOR EXPORT PROMOTION"

Price Waterhouse and International Resources Group (IRG) are pleased to present this addendum to our report on export promotion in Kenya.

In response to your request, the addendum contains the following sections.

Chapter I elaborates upon the recommended program for USAID support contained in Chapter VII of the final report. The section contains a description of each recommendation, its objective, the major constraints to be overcome by the program, the major constraints to program implementation and a qualitative discussion of the expected benefits from the program.

Chapter II contains a brief description of the export strategies and incentive structures of the three countries cited in our comparison of these strategies (Chapter III of the Final Report), namely Brazil, Korea and Taiwan.

Chapter III summarizes the principal comments made by the three major categories of people we interviewed, namely government officials, private sector associations and private sector businessmen. As we have mentioned to you, normally we do not provide interview notes to our clients, unless agreed to in advance, since these interviews are conducted in confidence. Since we were

not advised of your desire to have these notes prior to conducting the interviews, we are ethically enjoined from providing you with them. We do believe, however. that the summary provided should serve the same purpose as the interview notes.

We hope that this addendum is fully responsive to your request and will help to expedite your preparation of the PID for this project. If you have any further questions please do not hesitate to call me at (202) 296-0800. We look forward to working with you on subsequent phases of this project and on other projects in the future.

Sincerely yours,

Auguste E. Rimpel, Jr.
Director

ADDENDUM TO FINAL REPORT TO USAID/KENYA
EXPORT PROMOTION

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I. RECOMMENDED PROGRAM FOR USAID SUPPORT

The following section contains an elaboration on the major recommendations made in the Final Report. The section contains a description of each recommendation, its objectives, constraints that it will remove, constraints to program implementation and a qualitative discussion of expected benefits. For a detailed discussion of the issues from which these recommendations evolved, reference should be made to that report.

A. Promote the Establishment of an Exporters Trade Association Through Which to Channel USAID Technical Assistance to the Private Sector to Stimulate Exports

1. Objectives

The overall objective of this program is promote the export of non-traditional products to extraregional markets through a program of technical assistance that will be channelled to the private sector through a newly created exporters association. The Government of Kenya has recognized the limitations of the import substitution strategy that has been the basis for much of Kenya's development over the past two decades. The 1984-88 Development plan has committed the Government to shift its policies to encourage more export development, especially in the manufacturing sector. The private sector in Kenya will however need considerable assistance to restructure itself to become more competitive in international markets. This program will basically provide the assistance needed to help in this transformation.

2. Description of Program

The basic program will be made up of the following components:

a. Assistance to define the objectives, structure and financial requirements of an exporters association and assist in its implementation.

At the present time, in our judgment, an appropriate private sector association does not exist through which USAID could channel its program of assistance to the private sector. We are therefore recommending that USAID play a catalytic role in creating a new institution whose focus will be on expanding non-traditional exports to extraregional markets. USAID's role will be to provide assistance to first sell the idea of a new association to the private sector, and then assist them in defining the objectives, structure and financial requirements for such an organization. It should also be prepared to assist in the implementation of the new association. USAID has played a catalytic role in creating similar institutions in Central America as the focal point for promoting extraregional exports, and we believe that a similar need exists at the present in Kenya. Such a program will require the skills of a consultant specialized in organizing private sector associations.

b. Assistance to design and implement a program to provide technical assistance to potential exporters through the newly created exporters association.

A major reason for the creation of the exporters association is to provide a vehicle through which USAID could channel its

program of technical assistance to the private sector without dealing through a public sector agency. This is of course necessary since USAID cannot contract directly with individua private sector companies to provide them with technical assistance.

The exporters association will channel assistance to the private sector in a variety of ways to assist in developing non-traditional exports, including the following:

- Market research - conducting fundamental market research on promising export opportunities from Keny including building and maintaining a data base on promising opportunities to be pursued by Kenyan or foreign entrepreneurs.
- Opportunities identification - assistance in identifying promising market or investment opportunities and developing strategies to pursue th opportunities.
- Brokering - identifying promising Kenyan entrepreneu and foreign partners and bringing them together to m deals for either export or investment opportunities.
- Operational assistance - assistance to improve manufacturing processes and product quality to meet standards for sale to international markets.
- Trade fairs and missions - assistance to the private sector in structuring its approach to trade fairs an missions including recommending which trade fairs to attend and the nature of trade missions that should b mounted by Kenyan businessmen.

The above program of assistance will be provided to the privat sector through one or more contracts that the exporters association will negotiate with individuals or firms.

c. Assistance to the exporters association to conduct three major studies

Our project identified three major constraints limiting the further development of extraregional exports from Kenya which should be the subject of major studies carried out on behalf of the exporters association:

- A study of the feasibility and strategy of developing a privately owned and managed export processing zone for Kenya.
- A study of the transportation constraints limiting non-traditional agricultural exports and methods to overcome the problem.
- A study of the feasibility and design of a "one-stop" export document clearance program for agricultural exports.

These studies will have to be conducted by appropriate individuals or firms under contract to the exporters association.

d. Assistance to carry out other studies that will be used to influence government policies affecting extraregional exports.

As part of its ongoing process to promote extraregional exports, the exporters association will need to conduct policy studies that will be used as a basis for convincing the GOK to modify its policies and practices with regard to exports. This portion of the program will be used to fund such studies as may be required to be conducted by individuals or firms.

3. Constraints that will be Removed by this Program

The major constraints that will be removed as a result of implementing this program will include the following:

- The lack of a private sector association for USAID to channel its program of technical assistance to the private sector without going through a public sector institution.
- Lack of a mechanism to provide technical assistance to Kenya's private sector in such areas as market research, opportunities identification, brokering and trade fair and mission structuring. This is a major constraint to the future development of non-traditional exports.
- Lack of a mechanism to fund three major studies of important constraints affecting the further development of extraregional exports.
- Lack of a mechanism to assist the private sector in conducting major studies that can be used to convince the GOK to improve its policies and practices with regard to exports.

4. Major Constraints to Implementing the Program

The major constraints to implementing the program can be summarized as follows:

a. A reluctance on the part of Government to permit USAID to contract directly with a private sector association.

Interviews with government officials indicate that contrary to USAID's experience in Central America, Kenyan Government officials are not enthusiastic about permitting USAID to contract directly with a private sector association. This is

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particularly true given the cloud of suspicion that exists between the Government and the private sector.

b. USAID's ability to encourage and catalyze the formation of a new exporters association without arousing the suspicion and opposition of other existing private sector associations.

The consultant contracted to assist USAID in this area will have a very delicate job in selling this new concept. USAID's major bargaining point will be the technical assistance that will be provided to the private sector at no or minimal cost if this program is approved.

c. The difficulty in getting a respected leader of the Kenyan business community to take the lead in spearheading this concept.

A key factor that will affect the success of this venture is whether or not USAID will be able to get a dynamic respected Kenyan businessman to spearhead this effort. There are not that many candidates from which to pick and Kenya's ethnic problems further exacerbate the problem.

d. The difficulty in getting Kenyan businessmen to focus on extraregional markets especially for manufactured products.

At present, the focus of most Kenyan manufacturers is on the export opportunities that might exist in supplying PTA markets. Many do not feel that Kenya can compete in international markets with manufactured products. Local businessmen in the agricultural and handicrafts sectors are the only ones who are seriously currently considering opportunities in supplying

extraregional markets. There could be some difficulty in building a constituency for these opportunities outside the agriculture and handicrafts sectors.

5. Expected Benefits

This program will obviously benefit those members of the private sector who participate in it, but if it is successful, it will also benefit the Kenyan Government through the foreign exchange and jobs that will be gained by the Kenyan economy. It is obviously not possible to quantify the benefits of the program of this time, but such an evaluation will be a normal component of the project paper phase of this program evaluation.

B. Design and Implement a Program of Technical Assistance To KETA

1. Objectives

The principal objective of these recommendations is to promote the export of non-traditional products to PTA and other (principally U.S. and EEC) markets via a program of assistance to the Kenya External Trade Authority (KETA). Given the GOK's current emphasis on export promotion, and a historical import substitution policy, there is a lot that needs to be done at all levels of the economy. KETA, in particular, is in a unique position to assist exports of non-traditional exports in the agricultural, manufacturing and handicrafts sectors, and the assistance provided by USAID will help it achieve this goal.

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2. Description of Program

The program of assistance should consist of the following components:

a. Assistance to expand KETA and private sector participation in trade fairs and missions.

Representatives of the Kenyan private sector are suffering from inadequate exposure to overseas buyers, primarily due to a shortage of funds. USAID assistance to KETA would enable more trade fairs and exhibitions to be held in Kenya, drawing buyers groups and exposing them to a large cross-section of Kenyan exporters. Additionally, more Kenyan exporters and officials would be able to travel overseas more often, to select trade fairs in the region, the U.S. and Europe, and could take with them wider selections of product samples. Manufactured exports, primarily, would be promoted in the PTA countries, whereas non-traditional agricultural and handicrafts exports would, in the main, be promoted overseas.

Trade fairs are extremely useful in displaying a range of products that can be supplied to a variety of importers who serve different geographic areas and types of distributive outlets. Furthermore, they give importers an opportunity to familiarize themselves with the product, and especially, the quality of the products. They also get the importers and exporters to meet, discuss and attempt to resolve potential problems such as freight and delivery.

b. Provide technical support to the small industry sector, including handicrafts.

Most exporters in Kenya are not in regular or frequent contact with sources of information on foreign markets. Consequently, they are unable to keep up with or react speedily to changes in fashions, styles or tastes on the part of consumers. Currently, the availability of technical or market information is sporadic and although some assistance is provided by advisors sponsored by international donors, it is not sufficient. At the same time there is a significant need and demand on the part of exporters to know more about the tastes of overseas buyers, to keep up with product design and innovation, and with market intelligence with regard to volume, prices, packaging, shipping time and required services.

A program of technical assistance to KETA would establish a readily available source of information on these issues. The program could consist of provision of and access to a data base of importers, names and addresses of contacts and listings of Chambers of Commerce and business organizations. Thus, for a new exporter, or one looking for new markets or products to market, availability of such information on a regularly updated basis would be very helpful.

The technical assistance program would also enhance KETA's ability to deliver an expanded series of seminars to educate, train and assist exporters. The program would increase the frequency with which these seminars are given, enable them to cover a wider range of issues and to reach a larger number of people not only in the cites, but also in rural areas.

3. Constraints that will be removed by this Program

The major constraints that will be removed as a result of implementing this program will be the following:

- Lack of adequate exposure to buyers groups and importers in the major markets such as the PTA, EEC and the U.S.
- Lack of awareness on the part of importers of the quality and range of goods which can be provided by Kenya.
- Lack of an understanding by importers of the logistics and timeframe of shipping from Kenya.
- Lack of exposure to trends and signals in major markets.
- Lack of knowledge of whom to contact or how to enter new markets.
- Unfamiliarity with the procedures, processes and pitfalls of exporting from Kenya.

4. Major Constraints to Implementing the Program

a. A reluctance on the part of USAID to directly fund or sponsor trade missions.

Interviews indicate that USAID has not been responsive in the past to requests for funding efforts in this direction.

b. The ability to adequately represent, at trade fairs, products from several different exporters in different sectors.

Smaller exporters have commented that they seldom hear about opportunities to be represented, show their products or

otherwise improve their contact networks and that larger exporters always get preferential treatment.

5. Expected Benefits

This program will benefit exporters in the non-traditional agricultural products, manufacturing, and handicrafts sectors. It will enable more exporters to sell a wider array of products in more countries. This will translate into increases in employment and foreign exchange earnings and greater Kenyan exposure in the international trade sector.

C. Promote the Establishment of Several Export Finance Mechanisms in Kenya

1. Recommendation for Establishment of a Kenya Export Credit Insurance Corporation (KECIC)

a. Objectives

The primary objectives of proposing the establishment of KECIC are fivefold as follows:

First, reduce the cost and ease the loan terms of short to medium term export financing for Kenyan exporters - particularly less established and new non-traditional exporters. This step can be accomplished through comprehensive export credit insurance policies issued by a KECIC that can be ceded to banks as collateral for loans. Further, reasonably priced KECIC funding of those banks that discount eligible export paper could also achieve this objective.

Second, enable Kenyan exporters to secure sales of non-traditional exports, particularly manufactured products, in markets where foreign competition (for the sale) enjoys the benefits of export credit insurance backing. Since KECIC could offer financing programs through banks that will enable an exporter to quote competitive terms (e.g. fixed rates) on export contracts, Kenya could find its exports--particularly processed/manufactured exports--increasingly marketable. This objective should be particularly relevant to sales to African and Middle Eastern markets.

Third, provide a major incentive for an active and growing participation of commercial banks in the critical conversion of the Kenyan economy from an import substitution model to an export driven one. The presence of a KECIC with programs crafted to reinforce and enhance the export capabilities of local enterprises should greatly facilitate the willingness of local commercial banks to become more actively involved in the export finance process. It should also lead over time to a greater cooperation between banks (e.g. syndications of larger KECIC insured export finance arrangements).

Fourth, upgrade the quality of export sales contracts. Since export credit insurance arrangements involving KECIC will need to meet minimum standards with respect to the creditworthiness of the buyer, appropriateness of sales terms, country political and transfer risk acceptability, etc., sales made under the KECIC program umbrella should represent a good quality level.

Fifth, encourage export activity by smaller and medium scale enterprises. Since a KECIC will make assistance available to exporters in the identification and "credit qualification" of foreign buyers, less established Kenyan businesses should be

encouraged to use KECIC to help develop foreign markets outlets. This step will be particularly true if follow-on sales can be insured by KECIC.

The recommendation for establishing a private sector sponsored (and government supported) KECIC emmanated from a series of meetings with senior bank, business and government officials. It reflects the professional opinion of senior executives and officials active in the export finance and development sector. This recommendation, therefore, does not represent the findings of a comprehensive demand analysis. A demand analysis should be undertaken in the next stage of project development to determine the resource needs of any proper operating structure for a KECIC.

b. Description

A KECIC would provide comprehensive credit and political/transfer risk insurance coverage to eligible Kenyan exporters on terms up to 5 years. Credit risks such as bankruptcy would be covered under KECIC policies. Political risks (e.g. war, revolution, insurrection and expropriation) would also be covered as would the risk of currency non-convertibility (transfer risk). Credit risks could be borne by the KECIC and, as appropriate, local insurance companies. Political and transfer risks would be reinsured by the GOK through a reinsurance fund administered by a reinsurance committee. Those premiums collected that are attributed to the political and transfer risk insurance coverage would go regularly to the reinsurance fund to build its resources.

KECIC could provide comprehensive insurance to qualified Kenyan exporters with exports up to 5 years; this insurance would enable such exporters to obtain financing from commercial

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banks on reasonable terms (by ceding the KECIC policies as collateral). Alternatively, KECIC could provide funding directly to those local banks that discount the underlying promisory notes of eligible foreign buyers provided to Kenya exporters.

Descriptive material on Zimbabwe Export Credit Insurance Corporation (ZECIC) and its programs, has been sent to USAID/Kenya for review. This institution could well serve as a model for the development of KECIC.

c. Constraints

A KECIC will only be effective if it can work closely with and constructively through the private institutional financing sector in Kenya. This corporation will need the active sponsorship of private bankers and insurance companies, among others, to properly start-up and operate efficiently. This recognition is a key reason for involving a select cross-section of such private institutions as founding investors. Without the full support of the private sector and particularly the Kenyan government with respect to the provision of political and transfer risk reinsurance, the proposed KECIC will not work.

d. Expected Benefits

As enumerated under the section on Objectives, there are five major categories of benefits to be expected from a well structured and managed KECIC.

e. Proposal for USAID Support

USAID support should initially be to help provide the technical assistance necessary to develop a comprehensive

proposal for the establishment of KECIC. A sound first step would be to organize a steering committee of leading private bankers, insurance company executives and key government officials to oversee the preparation, review, analysis and implementation of the KECIC proposal. The type of analysis that needs to be undertaken under the purview of such a committee is summarized in Section VIII-4 of the final report. Once the analysis proposed is complete, it will be easier to specify other possible appropriate roles for USAID such as that of concessional lender to KECIC to help it start-up and achieve profitable operations.

2. Recommendation to Encourage Establishment of Kenya Money Market (for the Rediscounting of Trade Bills Among Other Financial Instruments)

a. Objective

The GOK and the private sector could benefit greatly from an organized (institutionalized) money market that effectively intermediates local savings for productive short term investment. Over time, one of the advantages of such a market to exporters would be a greater availability of export financing at lower cost, since banks now holding discounted export bills in their portfolio could sell them in an organized market to fund additional loans.

b. Description

An institutionalized money market in Kenya would need to be very carefully structured and policed. The initial performance of the market must be a success since it will be very carefully scrutinized by potential participants. It is recommended, therefore, that the market commence with Treasury bills and

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negotiable CDs on a very carefully supervised basis. If both Treasury bills and negotiable CDs can be successfully introduced, and traded properly, bankers acceptances and commercial paper (from prime names) can be circumspectly added.

c. Constraints

A principal constraint to the overall development of such a market is a concern shared by many bankers interviewed that such a market could rapidly develop into a "grey" one unless it is very carefully regulated and self-policed. Stated differently, many bankers questioned whether all their bank competitors would exercise the self-discipline necessary to promote only the highest quality paper in the market.

This overall constraint could be addressed through a careful market development program. For example, initially only major banks would be allowed to participate and all of their transactions would be closely monitored. Any violators would be publicly censured and enjoined from further participation for some reasonable time. The market could then be gradually expanded out of a successful gestation and learning curve period.

d. Expected Benefits

As stated in the final report, there is growing support among government officials and in the private sector for the formal development of a money market in Kenya.

The benefits to both investors and borrowers of an active and properly functioning money market such as those that exist today in major financial centers (e.g. New York, London, Singapore) are legion. As stated earlier, one of the major benefits is that borrowing costs are lowered to more accurately

reflect the underlying transaction and the maturity date of the financial instrument used. Significantly, third party investors are attracted to such a market which provides important additional liquidity; their active participation can add substantially to the pool of funds available to support short term borrowing needs of both government (e.g. Treasury bills) and private borrowers (e.g. commercial paper, CDs, bankers acceptances).

e. Implementation

As recommended in the final report, USAID/Kenya should play a catalytic role initially to encourage the GOK and key private sector institutions to take whatever steps necessary to plan, organize and start-up a local money market. For example, USAID could offer technical assistance to the private sector and GOK to help with the design, regulation and successful implementation of such a market.

3. Recommendation to Establish a 1-5 Year Local Currency Export Credit Facility (ESF) for Smaller to Medium Scale Exporters to be Channeled Through Prequalified Commercial Banks with Branches Throughout the Country

a. Objectives

The principal objective of this proposal is to make available local currency financing (using AID counterpart funds) on reasonable terms to smaller-to-medium-scale (e.g. up to 100 employees) Kenyan businesses to enable them to: (1) Meet their pre-export finance needs (e.g. the financing of production

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against firm export orders) and (2) fund capital investments required to improve the quality of exports, or to enable an import substitution business to properly retool to satisfy the demands of export markets. Most senior bankers interviewed felt that a facility of this type, properly administered, would help meet a real market need.

b. Description

As stated in the final report, the proposed ESF will be a $10-15 million (exact amount to-be-determined) local currency equivalent facility channeled through prequalified banks (e.g. Barclays, Standard Chartered, Kenya Commercial Bank) with proven marketing networks that can access smaller-to-medium scale (up to 100 employees) manufacturing and agribusiness enterprises with export potential located throughout Kenya. Those bank intermediaries selected would channel the ESF to eligible borrowers on terms and conditions to be determined in the exist stage of proposal analysis.

Serious attention should be paid to housing the ESF in a trust fund administered by a private bank. It was felt that this step should measurably increase the efficiency of the facility. Many of the senior bankers interviewed felt that if the facility were housed in the Central Bank it could invite unnecessary government interference and bureaucratic delays.

c. Constraints

One potential constraint is that commercial banks will not be willing to actively market the ESF unless the "spread" is attractive and use of the facility entails a minimum of "red tape." Until further analysis is done, it is not possible to be definite about the precise mix of incentives that must be

offered to select commercial banks to engage their full support in the aggressive marketing of the facility. This subject needs to be carefully addressed, as already proposed, in the next stage of project development. However, those senior bankers interviewed felt that a facility with the following characteristics should be aggressively used:

1. 1-5 year term.
2. A minimum need for co-financing with the understanding that user banks could raise the local financing portion from their parties on a fee basis.
3. A 7% spread (5% may be negotiable).
4. A minimum of administrative and reporting requirements.
5. Available to manufacturing, agribusiness and service companies throughout Kenya (including those located in urban areas such as Nairobi and Mombasa).

d. Expected Benefits

The primary benefit will be the successful encouragement of many "would-be" and existing exporters to use the ESF to improve their plant and equipment and thereby increase the potential quality of their products in export markets. This benefit will take time to be recognized but should have a meaningful impact over 2-3 years. Additionally, smaller, less established enterprises will have access to financing for their pre-shipment needs. The availability of the ESF combined with export credit insurance programs offered by a to-be-established export credit insurance corporation (KECIC) should significantly encourage exports.

The demand analysis proposed for the next stage of project development should determine what level of AID funding would be initially appropriate to meet real needs and the optimum terms

and conditions of such support. Preliminary interviews with senior bankers and businessmen suggest that a $10-15 million ksh equivalent facility would probably be adequate, at least initially, to satisfy reasonable demand.

e. Implementation

An ESF should be regarded as a serious business development tool by administering banks, if it is to be effective. If the ESF terms and conditions are attractive to both the bank intermediary and the borrower (goal of next step proposal analysis to determine) the ESF could become a popular and productive financing vehicle in Kenya.

The next steps recommended for the further analysis of this proposal are set out in Chapter VII-6 of the final report.

II. EXPORT PROMOTION STRATEGIES

This section includes a brief description of the export strategy and incentives of the three countries cited in Chapter III of the final report, Export Promotion Efforts of Selected Countries and USAID. Chapter III of this report presented the results of a comparative analysis of a variety of countries, referencing country-specific experiences as appropriate.

A. Korea

1. Development Approach

a. Introduction

Korea's industrial strategy during the last half of the 1950s was predominantly one of import substitution. Protection was afforded by a complex system of multiple exchange rates, complemented by widespread quantitative restrictions on imports as well as tariffs.

Starting in 1961, a number of attempts were made at policy reform and economic liberlization as the opportunities for so-called "easy" import substitution rapidly diminished. These attempts culminated in 1964/65, during which a number of reforms were successfully implemented. Among these were fiscal and monetary reforms which aimed at increasing both public and private savings, through respectively expanding direct tax revenues and raising the real interest rate in commercial banks.

Korean policy makers firmly accepted that rapid economic development depended upon an export-oriented industrialization strategy. This view was based on several factors, including:

- The relatively small size of the domestic market (which meant that extending import substitution further into new lines would involve increasing inefficiency)
- A very poor natural resource base.

A major associated policy change was the lasting establishment of a uniform exchange rate in 1964. By 1966 exporters operated under an essentially free trade regime.

b. Government Attitude toward Exporting

Underlying the effectiveness of Korea's system of export promotion has been the single-minded commitment of the country's political leadership to an outward-looking development strategy based on international competitiveness.

The Government of Korea (GOK) supports the principles of free enterprise and has established policies that may lead to less market regulation and an increase in private initiative. However, there remains a considerable amount of government influence throughout the economic system. Government economic advisors formulate five-year plans, which outline desired economic growth and establish industrial priorities. The authorities may use incentives, or more direct techniques, to accomplish their goals (e.g. through government control and ownership of some Korean banks). The GOK exerts considerable influence over labor, prices and wages.

The GOK's attitude toward foreign investment is selective. The Foreign Capital Inducement Law offers favorable investment incentives for those ventures that are approved. Generally, foreign equity interest of up to 50 percent will be approved, with some exceptions in specified industries.

c. Government Policies

Role of exchange rates and interest rates. Korea has not shied away from periodic devaluations in order to maintain equilibrium in incentives for domestic vis-a-vis export production. This has to a great extent ensured that domestic inflation, regularly in excess of world inflation, would not lead to substantial and sustained overvaluation of the real exchange rate for exports. Furthermore, the exporters' costs of temporary overvaluation have been compensated for in part by preferential interest rates.

2. Export Incentive Structure

a. Introduction

Korea's success in managing its entry into world markets and in acquiring and then maintaining a competitive edge in those markets has been attributed to the nature of its incentive structure and process. Generally speaking, Korean incentives are appropriately structured and adjusted to allow Korean producers to exploit the country's comparative advantage in export production. Basically, the officials manipulating the policy tools have been able to devise incentives that, on the average, eliminate discrimination against producing for export.

b. Nontax Incentives

The GOK has established free export zones to encourage direct foreign investments and exports. These zones are special industrial areas where foreign-invested firms can manufacture, assemble or process export products using tariff-free imported raw materials and semi-finished goods. Eligible companies must engage in manufacturing, processing or assembling for export

goods, must be a foreign-invested enterprise, and must engage in business of a highly technical and labor-intensive nature with definite prospects for exporting.

The GOK has established a number of industrial estates that offer amenities similar to the free-trade zones. These estates are not tax-free. Also, property of foreign-invested enterprises is protected from expropriation or requisition by various Korean laws.

Export promotio.. loans are available through commercial banks at a rate considerably below the rate charged for regular loans. The special low rate may also be obtained to purchase raw materials imported for use in production of export goods subject to deferred-payment agreements.

The Domestic Letter of Credit (L/C) has played a key role in providing automatic short-term export loans for working capital--and unrestricted access to intermediate inputs--for Korean manufacturers that export indirectly through other Korean firms. With a domestic L/C--issued by an exporter's bank on the basis of a direct export order--the indirect exporter can qualify for the same incentives as the direct exporter. So can the suppliers of the indirect exporter--and the suppliers of those suppliers--for the part of their production that ultimately will be exported. The broadening of the free trade regime in this manner has been important in drawing smaller firms into export production in Korea and inducing them to produce goods of international standard.

Korea has used rationing of longer term domestic and foreign loans as an instrument of export promotion. The use of this

instrument was, until the early 1980s, one of the most important instruments of government control over private firms. It was effective for a number of reasons:

- The GOK controlled the domestic banks--as a major shareholder, it had the power to appoint managers. (The ownership of commercial banks has recently been transferred to the private sector).
- The GOK controlled the inflow of foreign capital, which has accounted for a high percentage of the corporate borrowing in Korea.
- The GOK, through the Bank of Korea and the Ministry of Finance, has controlled interest rates in the formal banking sector.

Korean firms have been able to expand rapidly by taking advantage of these loans (e.g. the tire industry).

Unconventional Incentives. Korea has strongly encouraged firms to export in the early stages of production of goods for sale in the domestic market. Selectively and informally applied, the Korean Government has been able to spur some of the big firms to start up lines of export production that otherwise may not have been produced. In effect, the government has been able to avoid the inefficiency that so often permanently plagues infant industries. The Korean Government has also used public exhortations and awards presentations as an unconventional way to promote exports.

Export Targeting. Korea has used a system of developing export targets and the practice of holding monthly trade promotion meetings. These two forms of institutional arrangement have helped Korea translate political resolve into bureaucratic resolve. They also have provided Korean exporters with the type of information needed for bureaucratic action.

They have also served to stimulate the efforts of Korean firms to export.

c. Tax Incentives

It is the fundamental policy of the government to encourage foreign investments that contribute to the national economy, improve the balance of payments, and/or introduce advanced technology into Korea. The Foreign Capital Inducement Act (FCIA) regulates foreign equity investment and tax incentives. Foreign investments covered by the FCIA and approved by the Minister of Finance qualify for tax incentives. The primary tax incentive offered for inward investment is a five-year tax holiday.

Free export zones and export industrial estates are special tax-free areas. Particularly in the free export zones, administrative procedures concerning foreign investments and tax incentives have been simplified.

d. Technology Management

Korean firms engage in purposive efforts to master new technology in the pursuit of export objectives. The result is an increase in the profiency in production and a reduced need to rely on foreign resources in successive acquisitions of additional technology. Two methods have proven to be particularly fruitful in the advancement of indigenous technological capability and to fill the gaps in the early stages of an export industry's development: licencing and direct foreign investment. For much of their technology, Korean exporting firms copied it, developed it or turned to foreign buyers and suppliers who provided it willingly and at very low cost (if any).

e. Marketing Management

A key element in the Korea's process of export promotion is the selectivity in the marketing of exports. Initially, and with the help of government, Korean firms focused on fostering conditions to attract foreign buyers. In general, they have let foreign buyers incur the cost of most of the tasks of marketing--in exchange for competive prices. In this manner, Korean firms gained experience by observing the mechanics of marketing and began to reduce the degree of dependence on some of the marketing tasks that foreign buyers performed. Korea has progressively supplanted foreign marketing resources by domestic resources.

B. BRAZIL

1. Development Approach

a. Introduction

In the 1960s and 1970s, the Brazilian economy achieved one of the highest growth rates in the world (an average of about 5% over the period). Brazil was often considered as a model strategy of development.

There are questions, however, as to whether the development strategy of the 60s and 70s (predominately import substitution) and the concomitant technology is still adequate. After 1980, the Brazilian economy began to show may serious weaknesses, unemployment rose rapidly, the current account deteriorated, and the external debt rose to over US$90 billion. During this period, balance-of-payments difficulties and increases in import restrictions resulted in a renewed push for import substitution. The cautious steps towards trade liberalization

and greater economic openness evident in the late 1960s and early 1970s, strongly associated with the favorable export and overall economic performance of that period, were reversed.

In comparison to such outward oriented economies as Korea and Singapore, Brazil's share of trade in its economic activity is small.

b. Government Attitude Toward Exporting

In general, foreign investment is welcome to the extent that it represents a long-term commitment on the part of the investor to contribute to Brazilian economic development. There has been an increasing tendency for Brazilian-controlled joint ventures to be the most acceptable foreign investment vehicle. Where new technology is involved, it is government policy to induce development of technology within Brazil.

c. Government Policies

Industrial and trade policies since early 1979 in Brazil have been characterized by intermittent attempts to liberalize the economy through simultaneous real devaluation of the cruzeiro, and reduction of import protection and export subsidies. However, this long-term policy has been reversed several times in the face of short-term problems and exogenous shocks. Neverthless, a comparison of the development of exports with the pattern of foreign trade policy reveals that Brazil's foreign trade policy aimed at expanding the growth of exports was generally successful in achieving its objectives, particularly in the period from 1964 to 1974.

The Foreign Trade Deparment of the Bank of Brazil (CACEX) is the body responsible for the execution of import and export

policies. In general, imports are discouraged and exports encouraged. For example, imports of nonessential items have been suspended in the past; heavy import duties are imposed on luxury goods. Liscences are normally required for both imports and exports.

For approved investment projects in a number of industries considered to be of major importance for Brazil's economic development, incentives are granted, including exemption from taxes on importation of equipment, accelerated depreciation, and facilitated financing from government development funds. Besides the fishing industry, tourism, and forestation, the principal industries that have been benefited are the capital goods, shipbuilding, metallurgical, cellulose, chemical and petrochemical, automotive, aircraft and consumer goods industries, including textiles and food products.

2. Export Incentive Structure

a. Introduction

Export incentives are not applied equally to all export activity in Brazil, where there exists a wide dispersion of protection and export incentive rates among industries. Generally speaking, the impact of trade policies in terms of relative incentives to sell domestically or abroad varies enormously among industry in Brazil. While some of these differences reflect consciously adopted policy priorities to develop specific industries, there are many instances that do not appear to be properly explained in those terms.

b. Nontax Incentives

Export financing has been available to exporters of manufactured goods, principally in the following forms:

- Advances against foreign exchange contracts
- Advances against foreing exchange receivables
- Lines of credit for financing production destined for export based on past export history and export potential.

Several export-financing mechanisms are also in operation, including a government fund (FINEX) managed by the Central Bank that provides preand post-shipping financing for firms producing capital goods or other export products with long production periods. So-called certificates of entitlements are also issued to participating firms for a percentage of their export volumes. These certificates are then used to obtain financing from commercial banks, which discount the documents at the Central Bank--a process that makes export financing somewhat automatic, and hence fully consistent with successful export promotion efforts.

Exemption from state and municipal taxes is sometimes possible to obtain and often times takes the form of exemption from land and building taxes for a number of years. These grants are normally dependent on an undertaking by the investor to provide certain levels of employment, etc.

Export Targeting. Although Brazil has granted the public sector a relatively large role in the management of the economy, it has nonetheless not relied too extensively on the setting of export targets for firms.

c. Tax Incentives

Various tax-related incentives exist to encourage the economic development of Brazil. They are, in general, available to foreign controlled domestic business entities. There is, however, preference for minority foreign participation. These incentives fall under six major categories:

- Regional incentives in the Northeastern and Amazon regions of the country.
- Industry incentives for fishing, tourism, forestation and agriculture. There are also incentives for specific projects that are considered to be of national interest as approved by the CDI (Industrial Development Council).
- Incentives for exporters of manufactured products, some of which include:
  - Exclusion from taxable income of manufactured export related income
  - Exemption from withholding tax on export commisions paid to overseas agents
  - Exemption in certain cases from withholding tax on remittances of interest and other financial expenses related to exports
  - Exemption from excise tax and sales tax on the export of manufactured products.
- The port of Manaus Free Trade Zone is considered a free trade zone and all imports through Manaus are tax-free, provided goods are consumed within the zone or reexported.

d. Technology Management

Brazil has given explicit attention to the role of technology in economic development and to the stimulation of technological development through government policy (e.g.

energy). The main instrument used in Brazil to encourage the development of technological capabilities has been the provision of subsidized financing through specialized financial institutions.

The three main sources of supply of technological development, used in different degrees by individual industries, have been:

- direct investment by subsidiaries of foreign multinational firms
- local R&D and infrastructure, often provided by the government
- acquisition of foreign technology by local firms.

Prior to 1958, liscencing of technology and technical assistance agreements was virtually unrestricted. Over time, within the context of the evolving import substitution strategy, the process of foreign technology transfer has become increasingly restricted. The Brazilian attempt to regulate technology transfer has been criticized as being insufficiently coordinated between the numerous agencies responsible for the process.

C. Taiwan

1. Development Approach

a. Government Attitude Toward Exporting

The GOT places high priority on attracting capital inflow and the transfer of technological know-how to Taiwan. The Statute for Encouragement of Investment, the Statute for Investment by Foreign Nationals and the Statute for Investment

by Overseas Chinese are basic laws governing the administration of overseas investment projects. The main categories of investment open to foreigners include:

- Productive enterprises needed in Taiwan
- Enterprises that have export markets
- Enterprises that foster the development and improvement of important industrial, mining, information, and communication facilities
- Enterprises that are conducive to the economic and social development of Taiwan.

For those projects that receive GOT approval, the investors and their invested enterprises are granted the protection and privileges extended by the law and equality of treatment with domestic investors and enterprises.

b. Government Policies

Since 1950, the GOT has developed economic plans to guide and control the economic growth of Taiwan. The original plans promoted labor-intensive industrial expansion, whereas more recent plans have shifted toward capital-intensive and technology-intensive industries.

In the 1980s, two broad categories of industry, information and machinery, have been given high priority. The promotion of R&D and fostering of science and technology talent is being strengthened. However, traditional labor-intensive industries have not been overlooked; they have been encouraged to merge, automate, and otherwise raise their productivity.

Machinery manufacturing and information are considered strategic industries by virtue of their high technology, low

energy consumption, high value added, good market potential and low rate of pollution.

To accelerate the advancement of the nation's industry, the GOT has mapped out a ten-year plan for the information industry to promote the application of computers and data transmission in production and people's daily life.

2. Export Incentive Structure

a. Nontax Incentives

Foreign Investment Approved (FIA) companies are provided the following nontax incentives:

- The foreign investors will be offered the same incentives that are afforded domestic investors
- 100 percent foreign ownership is permitted
- All net profits and interest are remittable
- After 2 years of operations, 15 percent of the total invested capital may be repatriated annually
- Permission to employ foreign nationals in supervisory, sales, technical or advisory positions.
- If the foreign investment is at least 45 percent of the total registered capital, 20 years' protection is granted against government expropriation or acquistion.

Loans ranging from 70 percent to 90 percent will be granted to FIA and non-FIA export enterprises against the total amount of letters of credit, documents against acceptance, or documents against payment on export sales.

Since 1960, Taiwan has carried out a well-balanced development of industrial estates to coordinate with the requirements of the nation's industrial development program.

Export processing zones have been established for the purpose of helping to promote the development of the nation's export industries.

b. Tax Incentives

(1) Inward Investment

Capital Investment. The primary tax incentive offered for initial capital investment is a five-year tax holiday or acceleration of depreciation to those companies that operate in specified industries. The primary tax incentive for increasing productive capacity is a four-year tax holiday or a deduction of 15% of the cost of newly added production equipment on plant expansion and concurrent capital increase.

(2) Tax Concessions

Tax Holiday. The industries eligible for encouragement are set forth in Categories and Criteria of Productive Enterprises Eligible for Encouragement. The primary tax incentive is a five-year tax holiday or the right to use accelerated depreciation.

Available to All Enterprises. All profit-seeking enterprises are entitled to a number of tax incentives, ranging from favorable treatment of dividend and/or stock transactions to tax exemptions on imported raw materials. A myriad of tax incentives is also available to productive enterprises (e.g. income tax rate of 25 percent versus the normal 35 percent) and to productive enterprises that meet special requirements (e.g. metal producing enterprises that are technology-intensive are granted a 22 percent tax rate).

(3) Outward Investment

Tax incentives available to exporters include the following:

- Gross business receipts tax (GBRT) is exempted for all export sales and for any service rendered that earns foreign exchange.
- Prior year's export sales can serve as a reserve for any future export sales losses.
- Customs duties paid upon the importation of raw materials that have been processed and are reexported within a specified time period are refunded.
- An export enteprise can apply for foreign exhange to settle overseas branch expenses.

d. Technology Management

Taiwan has a very ambitious technology drive. Currently, much of it is centered at a science park in Hsinchu, where 50 small companies are attempting to develop products to suit market niches. The infrastructure of the park is similar to that provided for industrial estates; extra facilities and tax incentives are similar to those of the export processing zones. An enterprise whose technology is deemed to be by the GOT as highly desireable to the industrial development of the nation shall be entitled to a reduction or exemption of land rentals for a period of up to five years. As part of its policy to develop indiginous technological capability, Taiwan promotes Hsinchu as an Asian Silicon Valley, trying to attract the large pool of engineers in the U.S. by offering them a chance to start their own companies.

III. SUMMARY OF INTERVIEW NOTES

The following is a summary of the interview notes on relevant issues related to the program recommendations made in our report. These comments are summarized under three major categories--government officials, private sector associations, and private businessmen.

A. Government Officials

General Comments

- Although most Government officials expressed an interest in developing nontraditional exports, they seemed more interested in potential exports to PTA countries than in extraregional exports. Other officials showed a reluctance to believe that Kenya could compete in international markets, especially for manufactured products.

- Government officials appeared to have a particular problem with the concept of an export processing zone (EPZ). As stated in our report, they instead have favored the concept of in-bond manufacturing which, ir principle, should be more difficult to administer. Their reluctance may be due to their concern about the capital costs of an EPZ.

- A significant source of resistance to the concept of an export processing zone seems to be the Customs Department.

- Some Government officials appear to be concerned that any export processing zone or in-bond manufacturing concept will be abused by the private sector.

- Government officials have observed in-bond operations in three other countries: Malta, Tunisia and Trieste. They observed that there was no abuse of the system there because of the severe penalties if caught.

- Many Government officials have problems accepting the concept of a direct relationship or contract between USAID and the private sector in their country. They have been accustomed to USAID channeling all its programs through Government institutions.

- Among the government agencies interviewed there was some confusion relative to responsibilities for agricultural export development between the various ministries. The minister of agriculture claimed responsibility up to the farmgate while the minister of industry claimed responsibility for any processing activities. Thus products which could be exported on a fresh basis were the responsibility of the Horticultural Crops Development Authority except for the traditional export items of coffee, tea, sisal, pyrethrum, meat and hides.

- All agencies recognized the importance of agriculture to the Kenyan economy and the need for increased exports of both traditional and nontraditional agricultural products. However, each interviewee had a different concept of what might be expected to help increase export items based on their particular role in the export procedure. For example, in the document clearance area most of the interviewees initially claimed that the delay in the procedure was the responsibility of other agencies and not their own. In later discussions most of the interviewees agreed that the problem lies with the Central Bank because of the currency control system.

KETA Officials

The following represents some of the comments of KETA officials:

- KETA has tried to identify export market opportunities both in Africa and in developed countries.

- KETA is a committee that advises the GOK. Civil servants execute the programs approved by KETA and the Ministry.

- The presence of private sector members on the board of KETA gives the Committee political clout.

- KETA's focus is on African markets.

- Kenya exports ten times as much to other African countries than it imports.

- Objective of PTA by 1992 is no tariff barriers.

- The way to make manufactured products more competitive is to:
  - Enhance the export compensation scheme
  - Reduce the duty rates on capital goods and raw materials
- Kenyan tariff structure has the lowest rates in Africa
- They have completed a definitive study on the export credit guarantee system and are waiting for the Cabinet to decide to approve it. They visited Zimbabwe to observe the system there.
- Africa's problem is not marketing, but foreign currency
- Customs will be responsible for administering the in-bond program. First batch of customs officers to be available within one week. They currently have 25 applications in hand for in-bond manufacturing.
- KETA does not focus on the exports by multinational corporations; they instead focus on exports of the small and medium industries.
- Air space is a major constraint for horticultural products.

Comments at Meetings with KETA on Handicrafts

- KETA was set up to identify export markets, assist and guide exporters, develop products for markets, participate in trade fairs. (Attend eight of 100 annually).
- Department of Industry decides which areas KETA will support
- KETA's focus is on manufactured exports to the region and nontraditional exports to the West.
- Have held marketing missions to U.S.--six years ago took handicrafts people, held demonstrations and exhibitions and received a dramatic response.
- KETA is trying to expand on this base by:
  - Holding more exhibitions, especially in the U.S.--East Coast, West Coast and Chicago. (Made proposal

to Treasury Department in U.S. (sent via USAID) asking for $70,000 in funding--no response thus far.

- Most handicrafts studies and exhibitions have been underwritten by EEC.
- The industry is highly fragmented, however, when established the handicrafts Exporters Association should resolve problems.
- Sale of handicrafts to Europe/U.S. has been rising.
- There has been a trend to more organization in sector:
  - Wood carvers have formed cooperatives.
  - Women's cooperatives, especially in sisal bags.
- Major constraints to exporters are:
  - Lack of publicity--Government funding insufficient.
  - Lack of export financing.
  - Freight rates excessive, insufficient air transport space.
- KETA perceives the major needs to be:
  - Technical Assistance in design.
  - Exposure to foreign markets.
  - Seminars/training workshops throughout the country.
- Need from AID--Funding for trade fairs--$100,000
  - Funding to participate in three general trade fairs per year.
  - Supply a designer to improve design/contribution, etc. of handicrafts.
  - Keep abreast of market developments. USAID could work through the Treasury, KETA or the Handicrafts Association.

- o Exporters are hurting each other:
  - Undercutting each other
  - They are not aware how to mark up costs and most go out of business quickly.
  - Overall lack of market knowledge and capabilities.
- o Ciondo baskets have the biggest market. Patterns, dyes, construction and designs are improving and evolving in response to consumer tastes/demands.
- o Other products that are doing well are:
  - Batiks
  - Wood products

Ministry of Planning

- o The Government wishes to move away from import substitution.
- o Government position regarding exports is stated in the new Development Plan.
- o The GOK has taken the following policy initiatives:
  - The export compensation scheme has recently been streamlined.
  - In-bond manufacturing has been approved. More attractive to the GOK since it requires less capital than an export processing zone. (Recall that original concept was for a Government owned and financed zone.)
  - Participation and support for PTA.

Ministry of Finance Official No. 1

- o Concerned about USAID program direct with the private sector. Will need study to define if possible.
- o Current priority is to bring budget within ceiling. Need to comply with IMF requirements.

- The Ministry of Planning is responsible for export processing zone policy.
- They have had two previous proposal for free trade zones, one for Mombasa and the other for Kenyatta airport.

Ministry of Finance Official No. 2

- Need to focus more on informal sector
- Opportunities for contracting government service to private businessmen should be pursued.
- Government is committed to a mixed economy.
- Government has had some problem in approving the export processing zone concept. Would not state what is the Government-specific objection.

Ministry of Finance Advisor

- Need to promote industrialization through market forces.
- Tariff policy, although not highly protective, needs to be made more uniform.
- Need to liberalize import tariffs (i.e., eliminate licensing).
- On the export side, industry can't do very much since management weak and seeking Government favor.
- Export incentives established by Government.
  - Exchange rate will be the most powerful tool
  - Export compensation scheme in place; some administrative problems, long process
  - In-bond scheme approved
  - Green channel priority for processing export paperwork established
- Export credit guarantee program proposed by KETA too complex. Government will not approve it. Private sector should do it.

- Limitation on PTA export to firms 51 percent local owned is disincentive to multinationals.
- Sales taxes are being harmonized.

Ministry of Commerce and Industry

- Need to focus attention on the small-scale traders
- Manufacturing in-bond concept is accepted
- Major limitations to export development are finance and organization
- Definitely interested in labor intensive industries
- Need to encourage joint ventures with Kenyan partners
- PTA has problems at present; Zimbabwe benefitting more in some cases, also tariff structure a problem
- No knowledge of study to evaluate efficiency of existing industries
- Government has set up committee to deal with parastatal divestiture problem
- Focus at present on PTA markets.

B. Private Sector Associations

Kenya Association of Manufacturers (KAM)

- Their view is taken seriously by the GOK. KAM has a close working relationship with Government.
- Private sector is the key to Kenyan Government strategy.
- Current focus of KAM is on African markets since they have greater advantage.
- High energy cost has been a disadvantage to Kenyan industries.
- Need to uplift local people who have shown their effectiveness as traders.

- Although KETA was originally created by the KAM, it has drifted back to becoming a bureaucracy.
- They have been fighting Government price controls for some time.
- Export finance is a constraint to further export development.

Kenya Chamber of Commerce

- Don't want interference from the Government. They do not receive any financial support from Government.
- Major problem agencies affecting exporters are Central Bank, Customs, and Licensing.
- They do not really seem to understand off-shore processing but appear to be interested.

East Africa Association

- Multinationals are in Kenya since this was the only way to start a business; they brought in everything.
- MNCs bring framework of a system which generates efficiency.
- Local companies don't have a corporate code i.e., reporting system/accountability.
- Overprotection leads to inefficiency--true of locally owned and small companies.
- Government realizes they have to cut down on protection i.e., lower tariff levels, reduce import licensing.
- Some people manage to get exceptions to tariff reduction and import licensing through special connections.
- Import licensing should not be under a quota system.
- PTA likely to have a negative impact on MNCs due to 51 percent locally owned requirement to comply. Other countries build in provision to phase in this provision over time.

- Ability of PTA countries to sell products to Kenya will still limit Kenya's ability to export to them even under PTA system.
- Zimbabwe negotiated better position than Kenya. Negotiated phasing in of 51 percent provision.
- Over the next 30 years, Kenya will have to become a low cost labor market.
- Export processing zone can be viable concept in Kenya. Right now, coast is obvious location, but climate there is unfavorable and trained workers are not available. As a result, would advise against EPZ on coast.
- Believe that GOK is wary of FTZ concept. Egypt found that 85 percent of supplies that came in filtered into local market.
- Production sharing would not be transferring technology, which is what is needed in the long term.
- Political argument against manufacturing in bond: it would perpetuate lack of technology and Kenya would be always a supplier of cheap labor (same argument was made in Asia years ago and look what has happened).
- No concrete proposals yet for manufacturing in bond.
- Bulk of population growth is proposed to be absorbed into small scale agricultural sector.
- Five year priorities identified in new Development Plan.
- Kenya has underplayed export strategy. Human Resources and capital devoted to export promotion have been insufficient.
- Kenya will always have natural advantage to export to its land-locked neighbors.

C. Private Businessmen

Businessman No. 1

- KETA, as originally set up, was perceived as a very effective organization and a model to be followed by other countries.

- The export compensation scheme has never really been implemented since very few businessmen have been compensated. The two key agencies affecting the program are the Central Bank and Customs.

Businessman No. 2

- Need total approach to export development.
- Export emphasis should be on agricultural products.
- Believe that there would be interest in an Exporters Association.

Businessman No. 3

(These views were generally shared by businessmen #4 and 5 as well, and by others met at the Handicrafts Exhibition).

- Exporters not well organized, except wood carvers--The new Exporters Association should improve situation.
- Major Issues:
  - Pricing-- Exporters not sure of margins to charge.
  - Export compensation scheme is very slow and requires clout to get reimbursement.
  - Transport-- Freight charges too high.

    -- Space availability is low.
  - Design Problem--Inputs needed to meet western desires not always available--e.g., treated leather for ciondo buyers.
  - Lack of overall business knowledge among exporters. In the past, some never even got a signed contract.
  - Overseas buyers can't recognize good quality. Are being taken in by cheaper imitations from other countries--e.g., ciondo bags.
  - Underhanded exporting--people undercutting each each or have inside knowledge of contracts which should be open to all.

- Shortage of working capital. Need an export credit scheme.
- There are too many handicrafts exporters--a shakeout may develop.
- Need more seminars to educate exporters on all aspects of the trade.
- Need help in designing items

Businessman No. 4

- o Need help in training
- o Need more exposure to overseas markets.
- o Need more quality control--too many neophytes in business.

Businessman No. 5

- o Smaller exporters not getting chance to participate in overseas missions or exhibitions. Not "in the know" of things. KETA contacts the big firms about contracts, not the small ones.

Other Comments by Businessmen[1]

- o Nearly every interviewee recognized the growing importance of nontraditional agricultural exports from Kenya during the last three years and was aware of various kinds of impediments to the transactions. They blamed the other parties for these impediments without recognizing the need for concerted action as might be developed cooperatively between the various parties.
- o Most exporters were quite aware of additional volume opportunities available to them in the key export markets of the EEC and the Middle East and to a limited

1. These comments are based on the interviewer's recollection. Several interviews were made on a confidential basis; hence, no notes were kept.

degree in the Far East. There were several illustrations cited by the interviewees of NTAE exports being established on a limited basis in a marketplace with eventual failure resulting from various impediments.

- Interviewees generally considered exports in three categories. The first were the exports to the preferential tariff areas. The second was the exports to the EEC and the third was the exports to all other markets. Most interviewees did not recognize the differences among these three channels of exports and the difference in demand, product needs, expansion opportunities and the role of impediments relative to the exports to the different market areas.

- In general interviewees had relatively little knowledge of export promotion/incentive schemes, both successful and unsuccessful, in place in other countries around the world. They were familiar in most cases with the programs offered in Kenya but generally considered that those programs had not been successful in their utilization. Comments were frequently made about the import substitution nature of the Kenyan economy and that efforts to think in terms of export development were not well understood.

- There were a number of impediments expressed by different interviewees which include the following items.

  1. The export document clearance procedures.

  2. The difficulties with transportation including truck, sea containers and air transport. None of the interviewees seemed to be familiar with the transport impediment and what could be done about it, if anything.

  3. Marketing channels of the various NTAE were generally established but the prices at various levels of the chain were not well known nor was there any understanding of the margins relative to the services being performed. Only a few interviewees were aware of the difference between FOB export prices and CIF import prices. A few respondents could give some general idea of internal pricing structures.

- It was generally felt that something had to be done to further encourage export development of NTAE products but most interviewees were at loss as to who should take responsibility for such activities because of the highly segmented government bureaucracy in Kenya.

- There was awareness of the presidential statements about the need to increase exports. Most interviewees indicated that this public expression by the President had little effect on the rank and file of bureaucrats within ministries and that it had not filtered down to the farmer level or the general public and that probably little action could really be accomplished until export promotion was a well understood public policy at all levels of the country.