PN ABH-455

MAPS: KENYA

Private Sector Strategy: Phase I

FINAL REPORT

Bureau for Private Enterprise
U.S. Agency for International Development

Prepared for: *Bureau for Africa/MDI*
and
USAID/ Kenya

Prepared by: *J.E. Austin Associates, Inc.*

Sponsored by: *Private Enterprise Development Support Project II*
Project Number 940-2028.03
Prime Contractor: Arthur Young

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1. INTRODUCTION

The private sector strategy assessment being done in Kenya at the request of the USAID Mission uses the Manual For Action In The Private Sector (MAPS) methodology developed b J.E. Austin Associates. MAPS has been or is being utilized for private sector assessments in the Dominican Republic, Costa Rica, Lesotho, Swaziland, Botswana, and Ghana. The MAPS exercise in Kenya will serve as an input to the Countr Development Strategy Statement (CDSS) which will be submitted in early 1990.

The MAPS assessment is funded in part by the local Mission, in part by Africa/Market Development and Investment (AFR/MDI), and in part by the PRE Bureau under the Private Enterprise Development Support (PEDS-II). MAPS is designed to assist a Mission in conducting a strategy review. The MAPS process consists of seven phases:

- Phase I : Defining the current mission strategy
- Phase II : Describing the local private sector
- Phase III: Diagnosing opportunities and constraints to private sector growth
- Phase IV : Engaging in dialogue with the private sector
- Phase V : Designing A.I.D. private sector strategy
- Phase VI : Developing new projects and programs
- Phase VII: Debriefing and evaluating

Since each USAID Mission is different, it is important to tailor each phase in the process to respond to both local Mission priorities as well as the local private sector environment. The sections which follow detail both the work carried out as part of Phase I as well as how this work helped define and prepare the way for activities to follow under subsequent phases.

1.1 The MAPS Team Had Four Major Objectives:

a. Familiarize USAID-Kenya with the methodology as outlined in the Manual For Action In The Private Sector (MAPS).

b. Articulate current Missions strategy as reflected in working documents, project papers and budgets.

c. Launch local sub-contracting for Private Sector Description and Private Sector Diagnosis survey.

d. Make initial contacts with private sector associations, government officials and other donor agencies.

e. Tailor the MAPS exercise to fit with the objectives and priorities of USAID-Kenya.

1.2 The MAPS Team Worked Closely With USAID Personnel To Complete Phase I of the Assessment.

The MAPS assessment team consisted of J.E. Austin Associates consultants Kevin Murphy, Tessie San Martin and Roger Jantio and REDSO/ESA representative Don Greenberg. It carried out its work in Kenya over the period of February 12 to March 4, 1989.

The team worked closely with and received important assistance from USAID/Kenya and REDSO staff, GOK officials, business leaders, bankers and representatives of the World Bank, the IMF and other donors. The team worked on an almost daily basis with Ms. Holly Wise of the Office of Projects, who provided information and organized the logistics of the field mission. Overall Mission direction and guidance were provided by Mission Director Steven Sinding, Program Officer Carol Steele, Acting Directors of the Project Office Gordon Bertolin and Stafford Baker.

During Maps Phase I, the team accomplished the following:

- Presented a MAPS methodology workshop for Mission staff.

- Reviewed and analyzed background strategic, economic, planning and program/project documents (see Annex 6 Bibliography for a complete list of documents consulted).

- Met with representatives of the World Bank, IMF, IFC, GOK and with private sector leaders and private sector associations (see Annex 5 for a complete list of persons interviewed).

- Prepared and refined scopes of work for the Private Sector Description (Phase II of MAPS) and Private Sector Survey (Phase III of MAPS). These were provided to the Mission as well as to the subcontractors and are included in Annexes 1 and 2, respectively.

- Prepared an RFP on the basis of the above scopes of work, evaluated the proposals of three local consulting firms (Price Waterhouse/AMT Management Consultants, Deloitte Haskins + Sells, and Ernst & Whinney), and selected the subcontractor (Price Waterhouse/AMT Management Consultants) on the basis of technical competence and cost.

- Drafted a Private Sector Survey Questionnaire and a established a sampling frame adapted to the Kenyan environment and to local Mission priorities. Due to the size and diversity of the Kenyan private sector, the survey sample will be among the largest in a MAPS exercise (it will include 500 firms rather, almost 50 percent larger than the sample established in other countries). The sample will be geographically diverse (over 50% of the sample will come from outside Nairobi), and will target sectors of economy of special interest to the Mission. (See Annex 2 for details regarding the sampling methodology and Annex 3 for the draft of the Private Sector Survey Questionnaire).

- Presented findings and conclusions of Phase I to the Project Office and the Mission Senior Staff.

- Developed a follow-on schedule of activities for the description, diagnosis, dialogue and strategy development phases of MAPS.

2. ARTICULATION OF CURRENT MISSION PRIVATE SECTOR STRATEGY

The first step in the MAPS methodology is articulating the current Mission strategy, particularly as it relates to the private sector. This Phase is important for two basic reasons. First, by helping the MAPS team understand how program and project activities are related to goals and objectives, this exercise helps define the critical assumptions on which the current strategy is based; the MAPS effort can then be tailored to test the continued validity of those assumptions. It can also serve as a consensus or team-building tool within the Mission, illustrating for Mission Staff how each activity contributes to an overall goal, providing a clear sense of purpose.

The MAPS team did not make an effort at this stage of the process to evaluate past programs or propose appropriate new strategies. The purpose of Phase I is merely to articulate current strategy and accurately document how Mission projects and programs are related to stated goals and objectives.

2.1 Mission Statement, Goals And Objectives

The overall "Mission Statement" of USAID/Kenya can be stated as follows:

TO PROMOTE SUSTAINED AND EQUITABLE ECONOMIC GROWTH.

The objectives can be summarized as follows:

Objective No.1: IMPROVE AGRICULTURE PRODUCTION

- o Improve Local Training Capabilities And Technical Management And Financial Expertise
- o Rationalize Agricultural Marketing (with a focus on grain and fertilizer marketing)
- o Enhance Institutional Capacity For Research and Technology Transfer

Objective No.2: INCREASE THE ROLE AND EFFICIENCY OF THE PRIVATE ENTERPRISE

- o Develop Management Skills
- o Develop Entrepreneurial skills
- o Develop Technical skills
- o Improve Infrastructure
- o Develop Equity Markets
- o Develop Credit Markets
- o Enhance Policy Dialogue Capability of Private Enterprise

Objective No.3: REDUCE POPULATION GROWTH RATE

- o Increase Demand For Family Planning
- o Increase Supply of Contraceptive Technology
- o Develop Alternative Delivery Mechanisms

Objective No.4: IMPROVE POLICY ENVIRONMENT AND RATIONALIZE GOK BUDGET

This objective is cross cutting in that it supports all other Mission objectives. But it is also a by-product of other Mission activities.

For a graphic presentation of the above, refer to Exhibit 1.

2.2 USAID Project Inventory

The Mission's current project and program portfolio was reviewed and is presented in Exhibit 2. One notes from this review the substantial use of private sector organizations as implementing agents (PVOs, Commercial Banks, Investment Foundations). The portfolio also illustrates a large number of relatively small projects which may place disproportionate claims on managerial time.

2.3 USAID-KENYA Strategy Matrix

Comparing the objectives presented in 2.1 with the project inventory in 2.2, one can develop a strategy matrix (see Exhibit 3). As one can see in Exhibit 3, many of the Mission's projects achieve more than one objective. Moreover, many of the Mission's projects outside the private enterprise portfolio, particularly agriculture and human resource development projects, include activities which affect directly private enterprise development objectives.

2.4 Budget Analysis

An analysis of USAID Kenya's current project portfolio reveals the following dollar and percentage commitments for the major project category:

Table 2.4.1

Project Category	Total Commitments (US$ Millions)	Percentage of Total
Agriculture	124.7	34
Private Enterprise	111.5	31
Health/Population	58.4	16
Housing	44.1	12
Training	23.4	6
Total	362.1	100%*

(* may not add to 100% due to rounding error)

Exhibit 4 breaks down each category in Table 2.4.1 into major components. It shows the predominance of the SAP/SAAP program in the agriculture and private sector portfolio and of the FPSS project in the health portfolio. The Mission also has a relatively large housing/urban development portfolio, compared to most Missions in Africa. It also has one of the largest and most diverse private enterprise development project portfolios in Africa. The various components within the private enterprise portfolio address perceived constraints to and targets of opportunities for private enterprise development in the country (e.g. underdeveloped equity and credit markets, shortages of various entrepreneurial skills).

Exhibit 5 shows the growth of USAID obligations to Kenya between 1986 and 1990. Total annual obligations are large (averaging US$38 million) compared to other Missions, but they are also stable and not likely to increase over the next two years. The implication is that the private sector assessment under MAPS will need to focus on 1) questions of emphasis and 2) questions of effectiveness, that is, achieving the greatest "return" on the AID dollar invested in terms of private enterprise development.

3. USAID-KENYA STRATEGY IN THE CONTEXT OF AFRICA BUREAU GUIDANCE, GOK DEVELOPMENT STRATEGY AND OTHER DONOR PROGRAMS

3. Congruence Between Bureau Policy Guidance and the Current USAID/Kenya Mission Strategy.

Published Africa Bureau Policy guidance documents were reviewed and summarized to provide a reference base against which Mission strategies, objectives and portfolio could be compared. Bureau Guidance is presented in Exhibit 6. AID's Management objectives under the DFA are shown in Exhibit 7. A comparison of these exhibits with the USAID/Kenya strategy articulation presented in Exhibit 1 illustrates the harmony between the Mission strategy and the Africa Bureau policy guidance.

3.2 USAID Strategy Supports Important Elements of Stated GOK Development Strategy[1]

3.2.1 GOK Goal is To Achieve a 4.8% to 5.4% Real Growth Rate, With Low Inflation and Stronger Balance of Trade Performance.

These three objectives form the basis of GOK's 1988-1990 development program. To achieve these, GOK will focus on the agriculture, export, and manufacturing sectors, achieving realistic foreign exchange rates, fiscal restraint, improving the efficiency of essential government services and increasing the use of concessional external finance. The pillars of its development strategy include strong agricultural sector growth, the development of a strong non-rural informal sector based on improved linkages between agriculture and industry, an efficient manufacturing sector, and reduced population growth through family planning.

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[1]The GOK strategy summarized in this section was extracted from two basic documents: GOK Sessional Paper No. 1, 1986 and the GOK Five Year Plan 1989-1993. This information was complemented by IFC, IMF and World Bank documents (see the Bibliography in Annex 6) and interviews with representatives from some of these bodies (see Annex 4 for the minutes from these meetings).

3.2.2 GOK Stresses The Dominant Role Of Private Enterprise In Achieving Its Development Objectives.[2]

In support of the objectives stated above, GOK has taken a number of actions that encourage business growth:

- o Parastatals have been warned to eliminate their losses. The Treasury will no longer guarantee loans to state corporations which are not being run profitably.

- o Cautious and partial actions have been taken towards privatization, e.g. 20 per cent of the share capital of the Kenya Commercial Bank (KCB) was sold off; the old Cotton Lint and Seed Marketing Board has been replaced by a new Cotton Board with more modest powers than its predecessor. GOK undertook several actions to increase the role of the private sector in fertilizer marketing.

- o Efforts to rationalize the budget. Government operational and capital budgets will be subjected to rigorous cost-benefit analyses.

Exhibit 8 shows the articulation of the GOK strategy. The boxes show those elements in the USAID strategy which support GOK strategy. At least on paper, there is consistency between the two.

Despite official GOK recognition of the importance of the private enterprise for reaching its primary objectives, recent GOK pronouncements suggest that it remains reluctant to restructure the regulatory environment so as to encourage

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[2]The commitment to liberalization and free enterprise is less clear in practice than the statements in the planning documents would indicate. This is reflected at both the policy formulation level (where price control policies continue to predominate, despite pronouncements favoring free markets) as well as at the operational level (e.g. firms continue having difficulties repatriating profits, obtaining work permits for expatriates, obtaining import licenses, despite government pronouncements which state official intentions to streamline bureaucratic procedures and facilitate the environment for doing business). See this section for more details.

greater market freedom and business growth. Actual, as opposed to stated, policy towards private enterprise seems to be characterized by:

- A high level of government intervention that is highlighted by GOK strategy statement: "**Renewed Economic Growth, With Increases In Productivity, Employment, Provision Of Basic Needs, Through Increased Reliance On <u>Government Guided</u> Market Forces**" (emphasis added);

- A general trend that discourages exports;

- State ownership (traditionally seen as a means of "Africanization," and correcting a perceived imbalance of capital and business ownership historically under the control of non-Africans);

- Continued protection of SOE's that results in distortions in the development incentives established to encourage private sector growth;

- A system of financing government deficit that crowds out private sector borrowing. The GOK's budget deficit has been financed largely by using "captive markets" for Government debt (e.g. Commercial banks are required to maintain 20% of their assets in T-bills). This crowding out was recently diminished.

3.2.3 <u>The Environment for Private Enterprise Has Improved Significantly, But Is Still Restricted By Heavy Government Involvement Structurally, Politically and Operationally.</u>

The GOK has made commendable progress in balancing its budget, reducing inflation, and reducing rigid foreign exchange and licensing controls. Heavy parastatal involvement remains, capital repatriation is problematic, and operational impediments imposed on a daily basis by a bureaucracy suspicious of the private sector remain as constraints.

3.2.4 GOK Structural Adjustment, Private Enterprise, and Liberalization Policies Have Demonstrated Some Positive Results.

Nonetheless, by the mid 1980s, the GOK was able to restore economic growth to 5-6 percent per year, reduce the annual inflation rate to under 10 percent, curtail to some extent the budget deficit and the current account deficit from their peaks in the early 1980s, and create conditions more conducive to private enterprise led growth.

3.3 USAID Is An Important Player In Development Assistance

A comparison of USAID total assistance with that of other donors operating in Kenya reveals that the Mission is an important player in the constellation of donors. According to the OECD, total USAID assistance during the 1984 to 1987 period (the most recent figures available) represented on average 14 percent of total bilateral donor commitments to Kenya, the largest average for any bilateral donor over this four year period (Exhibit 9). In 1987, US assistance represented about 7 percent of total (bilateral and multilateral) commitments to the country (Exhibit 10). On average, US commitments to Kenya have represented almost 10 percent of total bilateral and multilateral assistance to the country during the 1984-1987 period.

According to OECD figures, most bilateral and multilateral donor assistance over the period of 1984 to 1987 has concentrated in the area of economic infrastructure (which includes communications, transportation and energy) and technical cooperation (which includes training, volunteer assistance, and expert consulting advice). Production assistance, which includes aid for private sector development, jumped from 9 percent to 29 percent of total assistance between 1986 and 1987 (Exhibit 11).

4. FINDINGS AND CONCLUSIONS

4.1 Five Critical Assumptions Were Identified

On the basis of the review of USAID, other donor and GOK strategy, and on the basis of the Team's interviews with private sector representatives in Kenya and with the Mission Staff, the Team distilled five assumptions which are critical to private enterprise strategy in Kenya, as articulated in these various sources. The private sector assessment will seek to test the continued validity of these hypotheses through the analysis of secondary data and primary data gathered through surveys and dialogue sessions.

4.1.1 High Population Growth Means Employment Generation Must Be Central Element of Strategy

Kenya's population growth exceeds 4 percent per year. Recent World Bank estimates have indicated that the labor force will increase by 85 percent between 1985 and 2000. Over 800,000 people are added annually to a population base of approximately 20 million. As a result, employment generation must be central to any development strategy.

4.1.2 Given Kenya's Debt Burden And Import Needs, Greater Foreign Exchange Generation And Export Promotion Must Be Central To Strategy.

Kenya's debt (nearly 50% of GDP) and its import needs will require a greater export and foreign exchange generation effort. Previous policy has focused on the negative side, controlling or slowing access to foreign exchange for travel, repatriation of capital, etc. Current policy is sounding a more positive note (correcting exchange rate imbalances, promoting export promoting zones, etc.). Export promotion (including tourism) will need to be central to a sound economic strategy. For Kenya to continue to meet its debt repayment schedule, export and foreign exchange revenues must increase. Therefore, an export promotion and foreign exchange generation effort (including tourism promotion) must be central to a balanced economic development strategy.

4.1.3 Credit Ceilings Impose Limits To Growth; Hence Equity Capital Mobilization Must Be A Fundamental Element of Private Enterprise Strategy.

Credit availability is an important constraint to growth in Kenya. IMF credit ceilings, which have been followed by the Central Bank, have restricted credit to the private sector. These credit ceilings are being felt by lenders and borrowers. Also, banks report that companies seeking loans often do so with very low levels of equity collateral. Therefore, high investment and growth will depend importantly on the availability of equity capital.

Capital mobilization should be the centerpiece of private enterprise strategy in Kenya. Alternatives include:

- Attracting foreign equity, such as for Export Processing Zones (EPZs);
- Expanding the stock market's capability to mobilize capital;
- Promoting venture capital groups;
- Debt-equity conversion (taking into account its impact on the money supply).

This is not to suggest that the credit side should be ignored. Domestic savings mobilization and interest rate liberalization could make positive contributions to the availability and channeling of credit.

4.1.4 African Involvement in Private Enterprise Has Been Slow to Develop; Without It The Private Sector in Kenya Is Vulnerable; Therefore, African Enterprise Should Be Promoted.

To date, the private sector in Kenya has failed to develop a strong entrepreneurial base in the African community. Of 600 companies in the Kenya Association of Manufacturers, only 20 are 100% African owned while another 60 have part

African ownership. Some 250 are Asian owned, with the balance being split between state-owned enterprises (SOEs) and multinational corporations (MNCs).

In other East African countries, the Asian private sector has been expropriated, leading to a decline in overall economic growth. While on the surface, the situation seems to be far more stable in Kenya, in-country interviews, particularly with African entrepreneurs, revealed widespread animosity and resentment towards the Asian business community. The Asian community has managed to find common cause (legally or illegally) with GOK authorities, but their actions in this regard have often generated further resentment when flagrant cases of corruption are revealed. Moreover, the unstable environment and undercurrent of resentment inhibit long term investment from the Asian community. This not a situation which is conducive to long term stability.

Past GOK strategy has tried to increase African participation in the economy by promoting state ownership. But this strategy has led to economic inefficiency and budgetary losses.

The long term health and vibrancy of private enterprise in Kenya requires that African Kenyans play an ever-greater role in entrepreneurship and capital participation. To the extent that African ownership/entrepreneurship can be expanded, this will contribute to stability.

4.1.5 Government Controls on the Private Sector Have Eased But Continue to Restrict Growth of Private Enterprise; Therefore Policy Reform Must Remain an Important Element of Strategy.

The GOK, in its Sessional Paper No.1 of 1986, recognizes the importance of private enterprise in achieving its primary development objective of finding productive employment for a rapidly expanding labor force. As noted in section 3.2 some steps have been taken to reduce the government role in the economy.

While the situation for the private sector is much better in Kenya than in many socialistic countries of Africa, it is not comparable with, for example, Ghana, where the government has made a major commitment to market liberalization and promotion of private enterprise. In Kenya, the government is still involved at an operational level with almost every facet of doing business including access to raw materials, foreign exchange, credit, dividends, etc. Government involvement is pervasive and limits private sector expansion.

Therefore, policy dialogue will continue to play an important role in creating an enabling environment for private sector growth so that the GOK's own goals can be achieved.

4.2 MAPS Will Seek To Identify Many Different Strategy Initiatives, But Will Actively Explore Five Major Strategic Areas

Given the above observations, five pillars of strategy emerge as critical components of an overall private enterprise development strategy (summarized in Exhibit 12):

4.2.1 Focus On Employment Generation

The focus on employment generation should also lead to an emphasis on small business and microenterprise development. Growth rates in employment in this sector have been running at 9% (compared to roughly half that among larger, more established firms). Export processing zones, also referred to as "free trade zones," have been another proven mechanism for generating employment over the relatively short term.

4.2.2 Foreign Exchange Generation: Export Processing Zones (EPZs) Should Be Promoted (But Are Not Likely To Attract International Investors As Currently Envisioned)

GOK is pursuing a free trade zone development in Mombasa and Nairobi. These zones, referred to Kenya as Export Promoting Zones (EPZs) have demonstrated an ability to generate significant employment and foreign exchange over relatively short periods of time in other countries (e.g. Mauritius, Dominican Republic, etc.). Kenya could easily compete as a potential site on the basis of its attractive location, relatively low labor costs, freedom from textile import quotas imposed by large importers such as the US, and relative political stability.

EPZs do not typically contribute much to the tax base, except through payroll taxes. While nothing has been formalized regarding the Kenya plan, it is said that the GOK envisions a corporate tax rate from year one of 45 percent, which is not likely to make the EPZ competitive in attracting businesses. Another drawback is that the GOK will be sponsoring the development of these zones. Experience in other countries shows that private sector developers are often more efficient in bringing in EPZs on stream more quickly and profitably and in attracting and keeping new ventures.

Land has been set aside in Mombasa and Nairobi. While further progress has yet to be made, interviews with GOK and entrepreneurs revealed that some interest in EPZs has been shown by private sector developers in Kenya. MAPS will pay special attention to testing the feasibility assumptions behind the EPZ effort.

Export based on raw materials, especially agro-exports, also deserve special attention. Related to the export sector is the tourism sector, which has recently become the major gross if not net foreign exchange generator. The private sector assessment will focus on this sector in detail to explore constraints to growth and to help USAID identify potential interventions in this area.

4.2.3 African Enterprise Development

USAID is already a leader in promoting African enterprise development through its Rural Private Enterprise and Private Enterprise Development Projects. It has helped mobilize capital for African owned enterprises through the K.E.M. and I.P.S. components of the P.E.D. project. It has helped channel long term credit to this sector. It has supported a project geared to the informal sector. It has provided training and technical assistance to African entrepreneurs. In the future, African entrepreneur development programs could be coordinated more closely with agro-export and EPZ development efforts and goals, if these are to take on greater emphasis.

4.2.4 Mobilize Equity Capital While Not Ignoring Credit Markets

Several initiatives could lead to greater capital mobilization:

- The Nairobi Stock Exchange (NSE), While Small, Can Be Critical To GOK And AID Private Enterprise Objectives. The NSE is currently very small and plays a limited role with only 54 companies listed, and an average of 3 trades per day handled by each of 7 brokers. However, private sector leaders see the NSE as playing a critical role in expanding African ownership and capital participation. It also offers a means for privatizing all or part of selected SOEs. Furthermore, there is an indication that surplus capital in rural areas could be mobilized as equity capital, given expanded marketing efforts.

- Promoting Marketing Efforts Of The Nairobi Stock Exchange could lead to greater mobilization of capital in rural areas while expanding African capital ownership.

- Development of New Instruments Such As Mutual Funds could make capital ownership available and attractive to a wider segment of the African population.

- Venture Capital is Being Mobilized via various schemes at present. Initial interviews suggest these efforts could be greatly expanded.

- Attracting Foreign Capital Can Be Problematic, Given the Present Environment. However, the proper policy environment could attract significant foreign investment to an Export Processing Zone. Local developers seem to be willing to invest and offshore producers would provide limited production investment required for EPZ operations.

- On the Credit Side, Interest Rate Deregulation Could Direct More Loans to Smaller ("Riskier") African Businesses. Current interest rate caps on bank lending rates combined with a prohibition on fee income charges on loans result in banks allocating credit to the largest and least risky clients; transaction costs are diminished by concentrating scarce credit resources in the hands of a few large clients (those least expensive to process). In a deregulated environment, banks would be induced to alter their mix, including more loans at a few points over prime to clients who currently have no access to credit. Deregulation on the deposit side could mobilize higher absolute levels of savings to channel into productive investment, although IMF credit ceilings would continue to be observed.

4.2.5 Promote an Enabling Environment for Private Enterprise Via Policy Dialogue

A schematic representation of the role of the enabling environment for private enterprise growth is presented in Exhibit 13. Sound policies encourage long term investment and channel scarce credit to productive enterprise. This in turn creates jobs, produces foreign exchange, and yields profits and government revenues through reasonable salary, sales and corporate taxes. It also produces additional savings and profits to be channeled into further investment. These in turn strengthen the enabling environment leading to greater social stability. The right "enabling environment" promotes a virtuous cycle of growth. Fostering this environment through policy dialogue with GOK has been and will continue to be a central theme in the Mission's overall development strategy. In the past, policy dialogue has focused on themes related to agriculture production. In the future, such dialogue may increasingly need to focus on major policy bottlenecks to private enterprise development. These will be identified in Phases II, III and IV of MAPS.

5. MAPS IMPLEMENTATION

The MAPS Phase I activities, including the very useful interviews with USAID Mission officers and business community leaders, helped determine how subsequent activities related to the private sector assessment would proceed. A number of important modifications were introduced as a result:

5.1 The Private Sector Survey Was Greatly Expanded In Scope.

Previous private sector survey efforts have sampled 200 to 300 firms. The size and diversity of the private enterprise sector in Kenya, compared to other sub-Saharan African countries, meant that the sample size had to be expanded to cover approximately 500 firms.

5.2 MAPS Survey Will Focus On Sectors Of Priority To USAID/Kenya.

The survey will focus on the following sectors:

- Agriculture for export
- Agro-processing
- Tourism
- Micro-enterprises

Since many of the enterprises in these sectors operate outside large urban centers and outside the capital city, over 50 percent of the sample will come from outside Nairobi. The primary and secondary towns included in the survey are discussed in Annex 2 of this report.

5.3 The Private Sector Assessment Will Focus Heavily On The Micro-Enterprise Sector

Half the firms surveyed will come from the informal or micro-enterprise sector. The survey language will be adapted so that it is easily comprehensible to this group. Dialogue sessions will be organized and changes in format and location will be made to accommodate to the special needs and requirements of this sector. While data on this sector is notoriously inadequate, an effort will be made in the description section to provide USAID new data on this sector. The Contractor for this effort, PW/AMT has already uncovered a number of fairly recent employment surveys on this sector. The survey results from the MAPS effort should make a considerable contribution to the existing knowledge base in this sector.

5.4 A Computerized Data Base On The Kenyan Private Sector Will Be Developed.

The private sector assessment team will compile comprehensive lists of the key entrepreneurs, Asian, African and expatriate, in each of the major sectors in the economy. These lists will be compiled during the description of the private sector. They will be incorporated into a data base management software package which will enable the Mission to access and update information on important actors in private enterprise. It will also concentrate on developing information on key developers who may be interested in participating in the promotion of EPZs.

5.5 The MAPS Process Will Systematically Widen The Net Of Contacts In Sectors Of Interest To USAID.

USAID/Kenya has been operating in the private sector for many years. It already has a well developed network of contacts. The Mission's current private sector strategy was prepared after extensive interviewing of that net of contacts. But Mission Staff, burdened with project management responsibilities has limited time. The MAPS team will assist in leveraging this limited time by identifying, screening and handling logistics for dialogue sessions, seeking to ensure that each session will contribute substantially to USAID officers' understanding of the private sector.

5.6 Informal Dialogue Sessions With Key Leaders Will Precede The Focus Groups And Take Place Throughout The MAPS Process.

The MAPS team will work continually between March and September, touching base with various groups of entrepreneurs. Thus, even before the formal dialogue sessions begin, the Mission will have had a chance to get together with small groups of entrepreneurs and sound them out on issues of mutual interest. This will help widen the net of contacts available to the Mission and enrich the description and survey process.

5.7 Strategy Assessment Will Focus On Emphasis And Effectiveness

Kenya already has a large and diversified private sector program and current levels of obligations in Kenya are likely to remain relatively constant. Current Mission strategy for private enterprise development is based on assumptions and observations made about the business environment in 1985/86. The environment has changed. The description and the survey undertaken as part of the private sector assessment will focus on testing the extent to which those constraints being addressed through the present strategy continue to exist. It will also focus on quantifying the relative gravity of these constraints as experienced by 500 Kenyan business executives and entrepreneurs. The results of the description and the survey will help the Mission prioritize interventions and activities and channel resources into those areas where the needs are the greatest. It is expected that the results from these studies will assist in focusing efforts and in identifying areas of greatest effectiveness.

5.8 MAPS Will Assess Strategic Options According To A Set Of Key Criteria.

The private sector assessment will seek to identify a full menu of options and then evaluate those options according to a set of criteria, including:

- o Impact on employment
- o Impact on net foreign exchange generation
- o Impact on growth in African entrepreneurship
- o Impact on enabling environment for private enterprise
- o Impact on equity capital mobilization
- o Consistency with expected USAID level of resources and staff capabilities
- o Short-term vs. long-term impact
- o Existence of local Kenyan private sector leadership ("catching vs. creating the wave")
- o Likelihood of GOK support/agreement
- o Complementarity with other donor efforts
- o Administrative feasibility (existence of implementing agents with requisite institutional capability)

5.9 MAPS Team Will Provide Substantial Ongoing On-Site Management.

MAPS team representatives will be on site approximately half time between March and early June and then in August and September to supervise MAPS implementation.

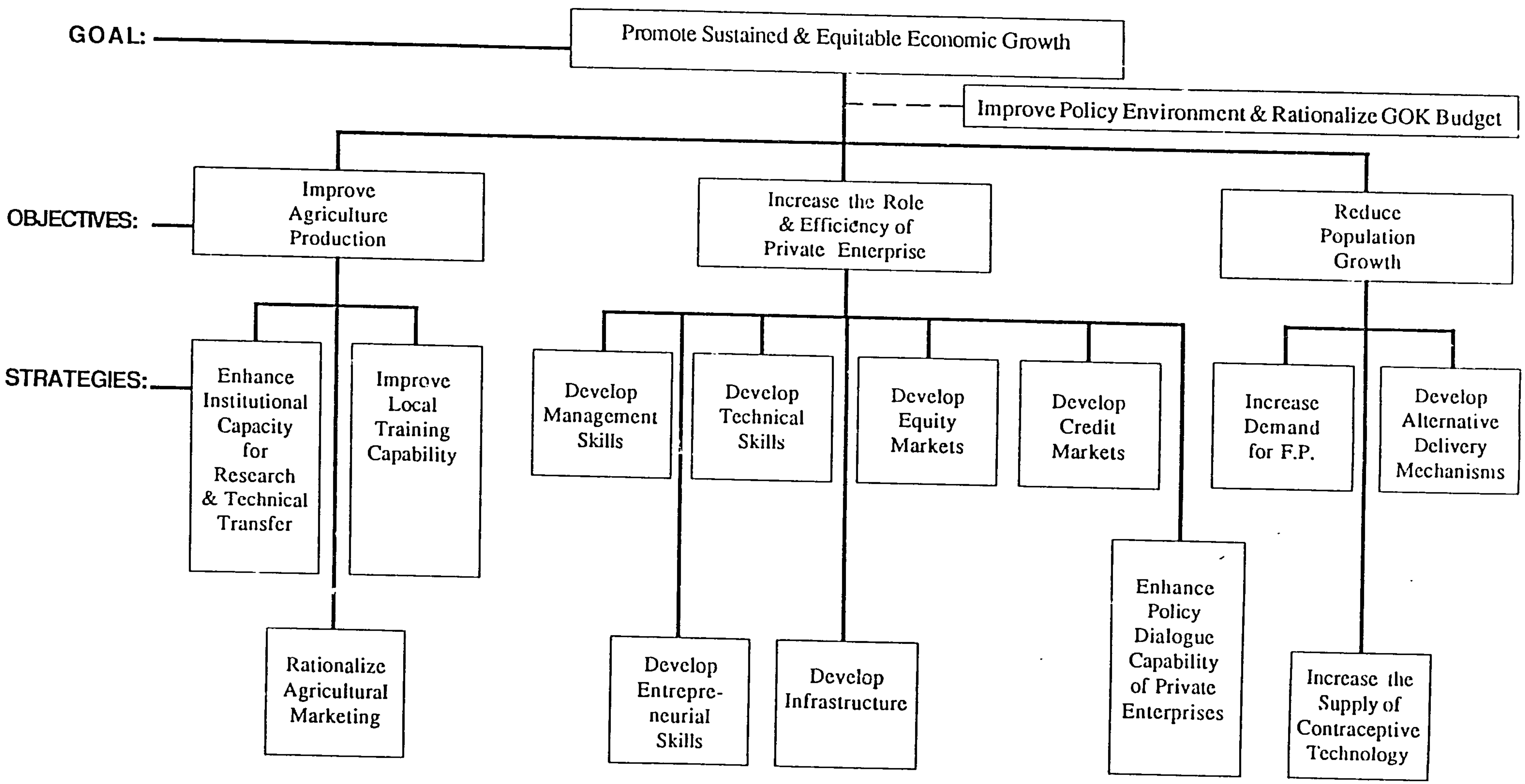
5.10 <u>The Implementation Schedule for The Private Sector Assessment Has Been Adapted To Account For Mission Schedules.</u>

The implementation schedule has been adjusted to take into account staff home leaves scheduled for the mid-June to mid-August period. The description and survey will be completed prior to mid-June. Some dialogue sessions will also be scheduled before then. A preliminary report will be delivered at this time as well. The follow-on focus groups and strategy workshops will be scheduled for late August, early September, with the final report delivered in September.

This schedule fits well with the Mission's CDSS preparation schedule. The proposed schedule for the description, survey, dialogue and strategy development segments of the MAPS exercise can be found in Exhibit 14.

EXHIBIT 1

MISSION GOALS, OBJECTIVES STRATEGY -- USAID / KENYA



Source: Action Plan 1987, Discussion with Mission Staff

EXHIBIT 2

USAID / KENYA PROJECT INVENTORY
SEPTEMBER 1988

PROJECTS	KEY COMPONENTS	LOP AUTH. (US $M)	PIPE-LINE (US $M)	AUTH. DATE	IMPLEMENTING AGENTS
Rural Private Enterprise	Credit / NGO Devp.	36.0	28.0	08/83	MOF
Private Enterprise Devp.	Policy/Trng/Credit/Equity	25.0	9.8	05/85	MOF; KAM; KEM; ECT; WEREP Ltd.; K MAP; IESC
SAP (CIP, Fertilizer)	Policy Reform/Credit Informal Sector; Ag. Mktg.	76.0	23.1	06/85	MOF; MOA; MOP; Central Bank MOF;
SAAP (CIP, Fertilizer)	Policy Reform	46.4	36.7	04/86	MOA; MOP; Central Bank
Grain Storage		7.8	2.1	04/81	MOA
Agric. Management	Training	3.0	2.0	09/85	MOEST/Egerton
Nat'l. Agric. Research	Research & Tech. Transfer	15.3	13.0	08/86	MOA/KARI
Agric. Dev. Program		14.7	0.0	09/84	MOF
IDAT	Training/Curriculum Dev.	5.2	4.5	07/86	Egerton University
E.A. Remote Sensing II	Research	2.5	1.9	06/86	RCSSMRS
Private Sector Fam. Plan.	PVO+NGO Develpmnt./ Demand - Supply F.P.	8.4	3.7	08/83	John Snow Inc.
Family Planning Serv. & Support	Demand - Supply F.P.	46.2	17.8	08/85	MOH; NCPD
CORAT Child Survival	Demand F.P.	1.6	1.1	02/87	Christian Org. Res. Advis. Trust
Training for Development	Training	10.0	6.4	08/87	DPM
PVO Cofinancing	PVO Development	12.0	0.7	05/85	USAID/Kenya
Kenya Small Town Shelter	Rural Infrastructure	16.0	9.6	09/80	MOLH; NHC
Private Sector Coop Housing Financing	Housing	9.0	0.3	12/83	NHC; Housing Union
UMOJA II	Housing/Infrastructure	18.5	2.0	02/82	Nairobi City Commission
Kenya Credit Union	Credit		10.0	0S/87	NHC; Housing Union
FPIA	Demand - Supply F.P./Info.	0.6			FPIA
Family Planning Services	Information/Training Demand - Supply	1.2			MOH
PRITECH	Demand P.P.	0.4			MOH
Small Ruminants	Research	3.3			MOLD
Research		0.8	0.006		MOH/Kenyatta Hospital
African Manpower	Training	1.2	0.2		DPM
HRDA	Training	0.2	0.2		DPM
PEACE CORPS	Credit/ Infrastructure	0.2	0.2		Peace Corps
TOTAL LOP		361.5			

Source: Action Plan, 1988

October 2, 1988 Memoranda of Office of Projects (USAID/Kenya) to Office of Program, Office of Project, Office of Population and Health, Office of Agriculture and Office of Housing, Semi-annual Project Implementation Review For Period ending September 30, 1988.

EXHIBIT 3

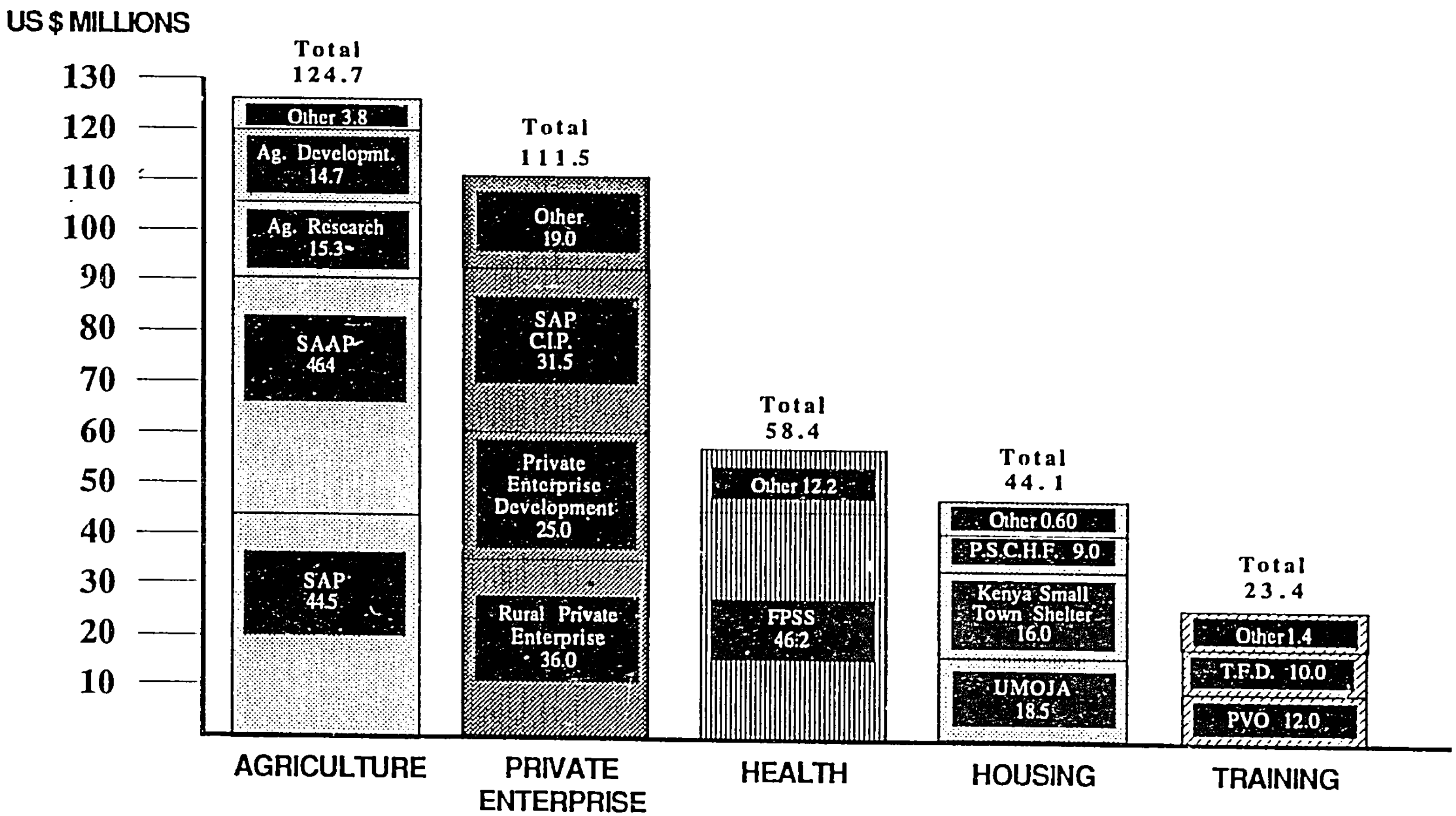
STRATEGY MATRIX -- USAID / KENYA

	CAPACITY: RSCH & TECH TRNSFER	AG MKTG	IM-PROVE LOCAL TRNG	DEV MNGT SKILLS	DEV TECH SKILLS	DEV EN-TREP SKILLS	DEV INFRST	DEV EQUITY MKTS	DEV CREDIT MKTS	POLICY DIAL CAPACITY	DE-MAND FOR FP	SUPPLY OF FP TECH	ALT DELIVERY MECH	IM-PROVE LOCAL TRNG	
HRDA				X										X	
PRIM HEALTH (219)											X				
RPE (220)				X	X	X			X						
AG MNGT (221)			X	X											
PUB SECTOR FP (223)											X	X	X	X	
NAT AG RSCH (229	X														
FPSS (232											X	X	X	X	
TRNG FOR DEV (234)				X										X	
PVO CO-FIN (236)				•									X		
PED (238)				X	X	X		X	X	X					
IDAT (239)			X												
SAP (213)		X						X	X					X	
SAAP II (240)		X						X	X					X	
CORAT (241)											X				
MKTG DEV (242)							X								
JUA KALI (227)						X			X						
PL 480		X												X	
FPIA											X	X	X		
FP SERVICES											X	X	X		
PRITECH											X				
REACH											X				
DIARR. RSCH											X				
AFRICAN MANPOWER														X	
PEACE CORPS						X	X		X						
E.A. RMT SENSING	X														
SMALL RUMINANTS	X														

EXHIBIT 4

USAID Budget Analysis

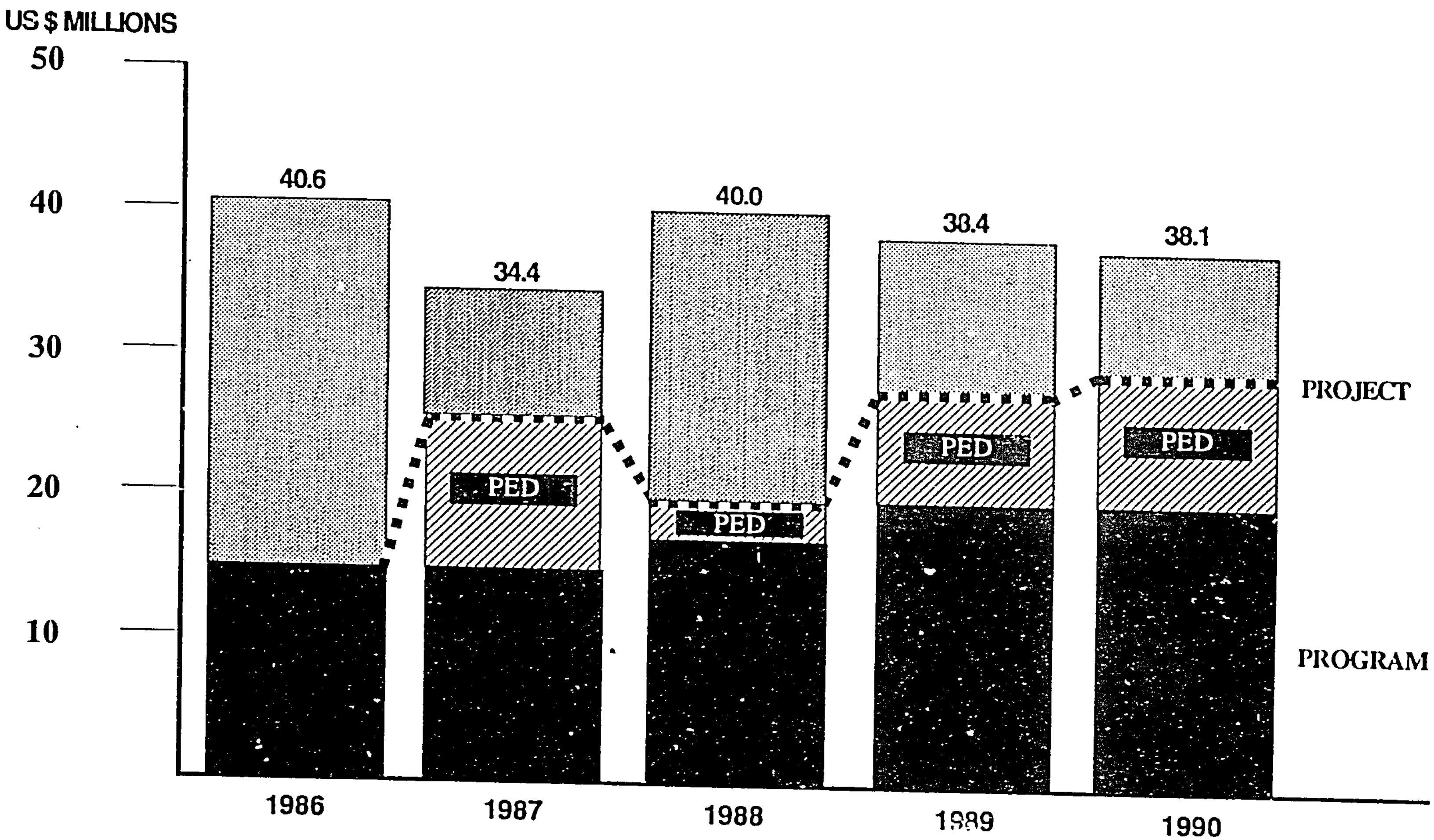
TOTAL L.O.P. AUTHORIZATION FOR ACTIVE PROJECTS
FEBRUARY 1989



TOTAL PROJECT PORTFOLIO = US $362.1 MILLION

EXHIBIT 5

USAID / KENYA -- ANNUAL OBLIGATIONS



- Total does not include PD&S funds
- PED = Private Enterprise Development Project

EXHIBIT 6

BUREAU GUIDANCE

MISSION: Broad - based, market oriented, sustainable economic growth

OBJECTIVES: / **TARGETS:**

Improve Private Sector effectiveness and efficiency	Promote market - oriented pricing & allocation policies	Increase potential for long - term productivity growth	Increase efficiency and equity of social service delivery	Improve food security
Debt, Fiscal Monetary Policy	Financial markets liberalization	Technology	Health	Productivity & Production
Major role for Private Sector	Factor inputs liberalization	Natural Resources	Education	Import Availability
Privatization		Human Resources	Infrastructure	Famine Preparedness

EXHIBIT 7

A.I.D.'S MANAGEMENT OBJECTIVES UNDER THE DFA

DFA OBJECTIVES

- An efficient and effective private sector
- Market mechanism pricing and allocation policies
- Long term productivity increases
- Social service efficiency and equity
- Food security

TARGETS

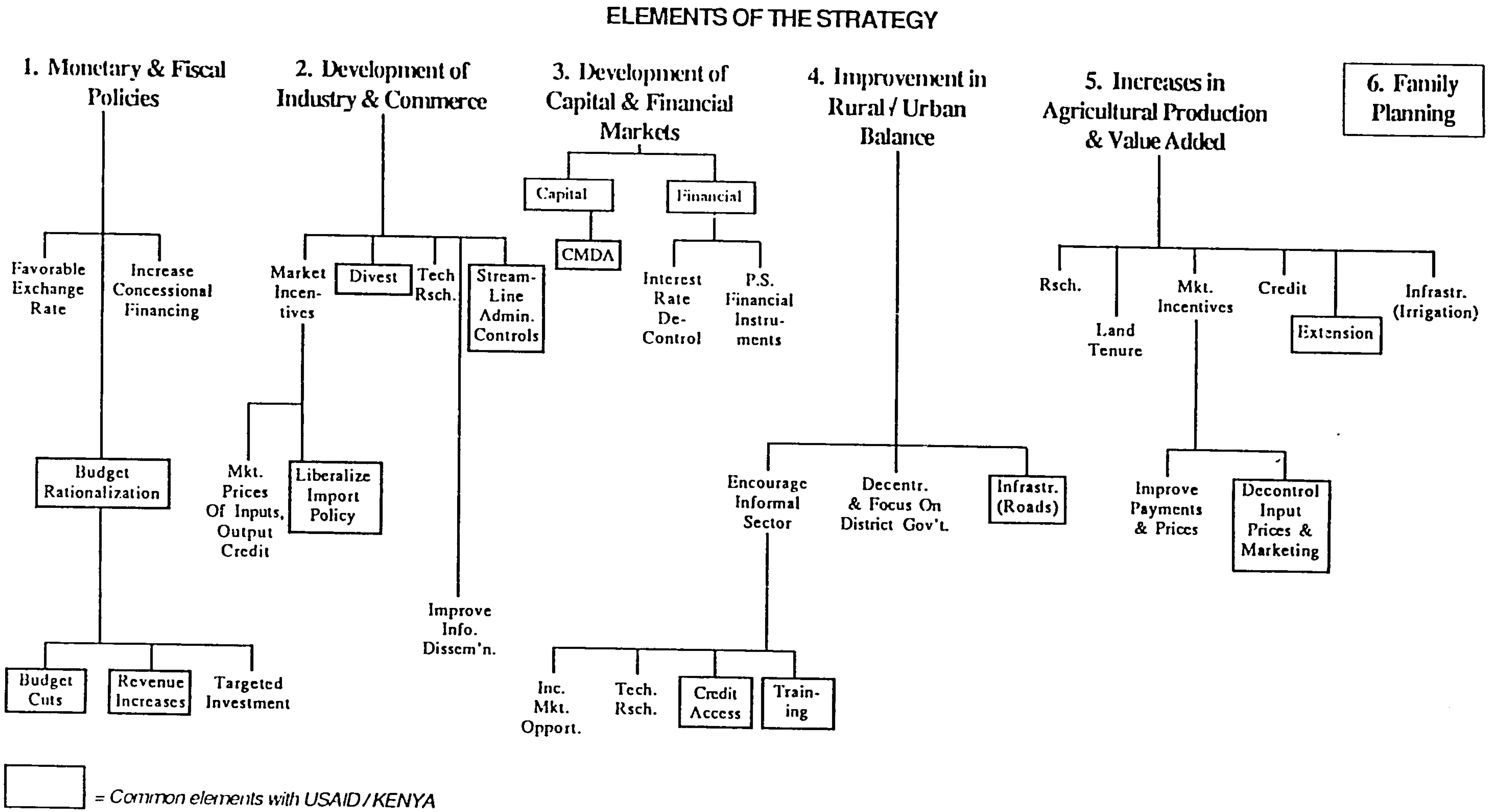
A.I.D.'S MANAGEMENT OBJECTIVES

- Concentrate resources on priority programs
- Utilize performance based programming approaches
- Increase donor collaboration
- Increase PVO partnerships
- Strengthen monitoring, evaluation and reporting systems

EXHIBIT 8

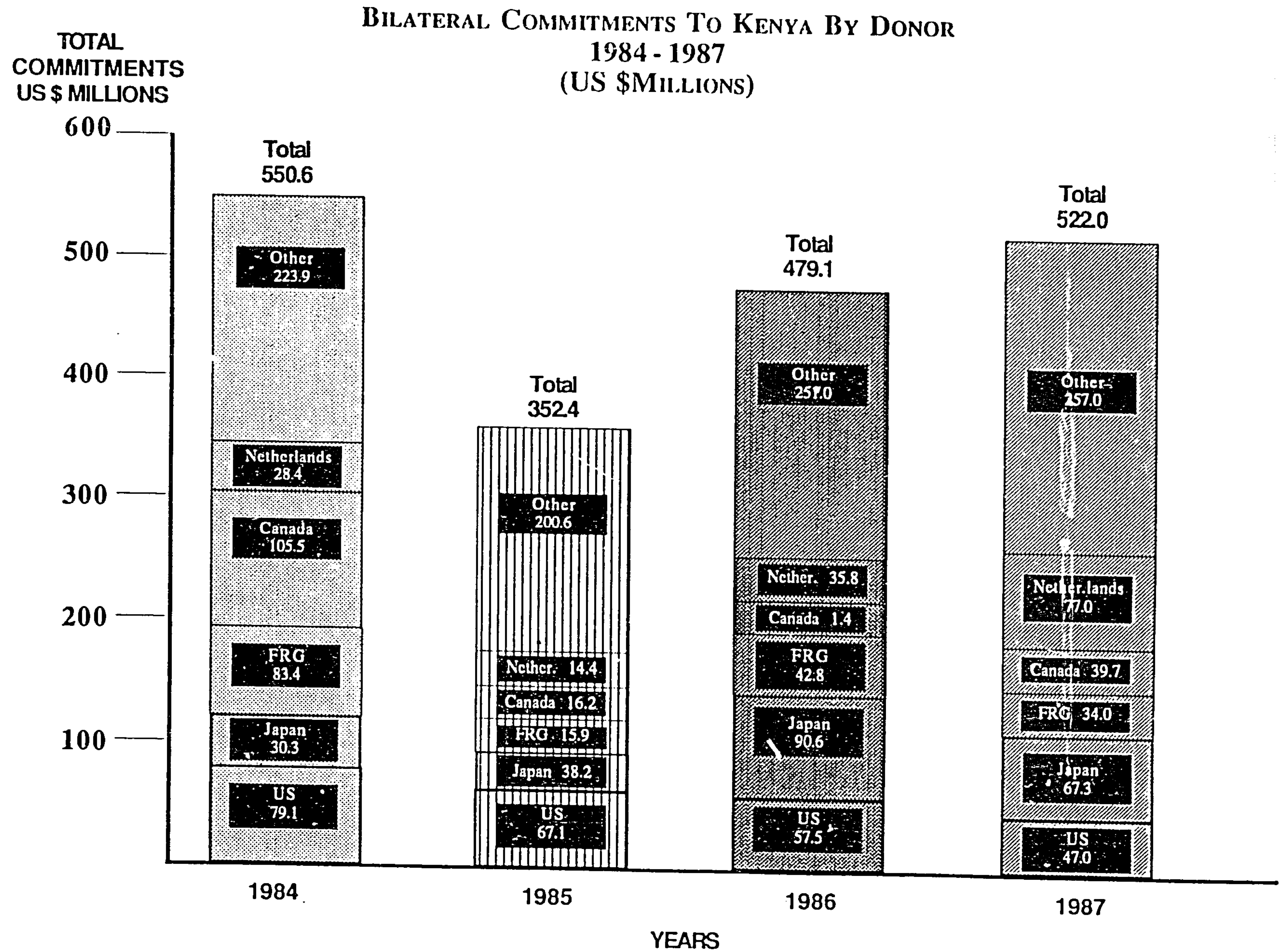
GOK Strategy Statement:

Renewed Economic Growth with increases in productivity, employment, provision of basic needs, through increased reliance on government guided market forces



Source: Sessional Paper No. 1 Five Year Plan 1989 - 1993

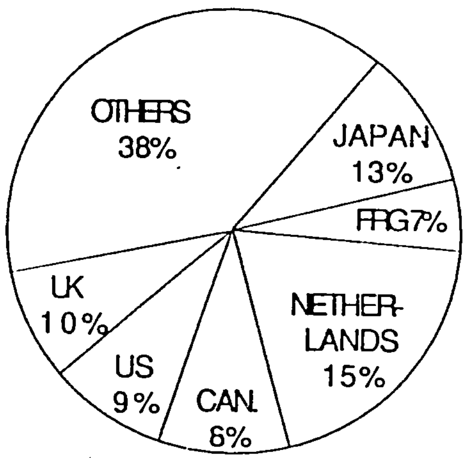
EXHIBIT 9



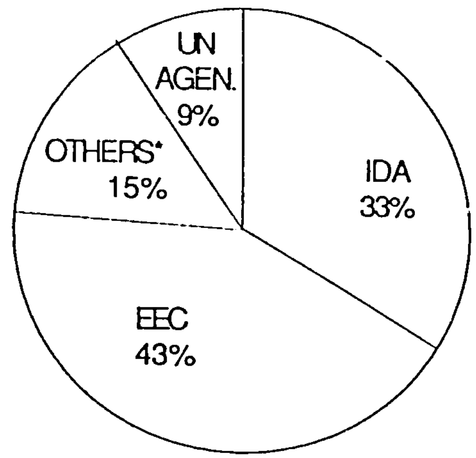
BILATERAL COMMITMENTS TO KENYA BY DONOR
1984 - 1987
(US $MILLIONS)
TOTAL COMMITMENTS US $ MILLIONS
600
500
400
300
200
100
Total 550.6
Other 223.9
Netherlands 28.4
Canada 105.5
FRG 83.4
Japan 30.3
US 79.1
Total 352.4
Other 200.6
Nether. 14.4
Canada 16.2
FRG 15.9
Japan 38.2
US 67.1
Total 479.1
Other 257.0
Nether. 35.8
Canada 1.4
FRG 42.8
Japan 90.6
US 57.5
Total 522.0
Other 257.0
Netherlands 77.0
Canada 39.7
FRG 34.0
Japan 67.3
US 47.0
1984
1985
1986
1987
YEARS

EXHIBIT 10

TOTAL DEVELOPMENT ASSISTANCE TO KENYA: 1987

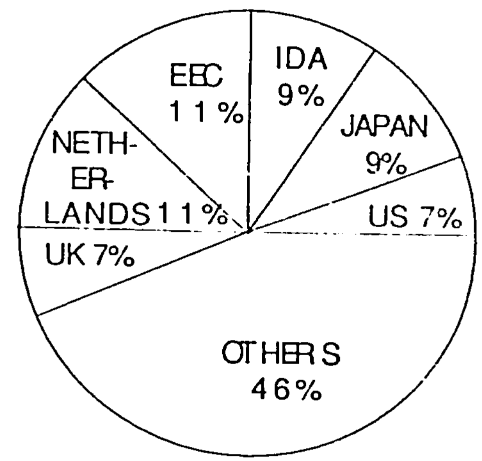


Bilateral: US $522.0M



Multilateral: US $191.6M

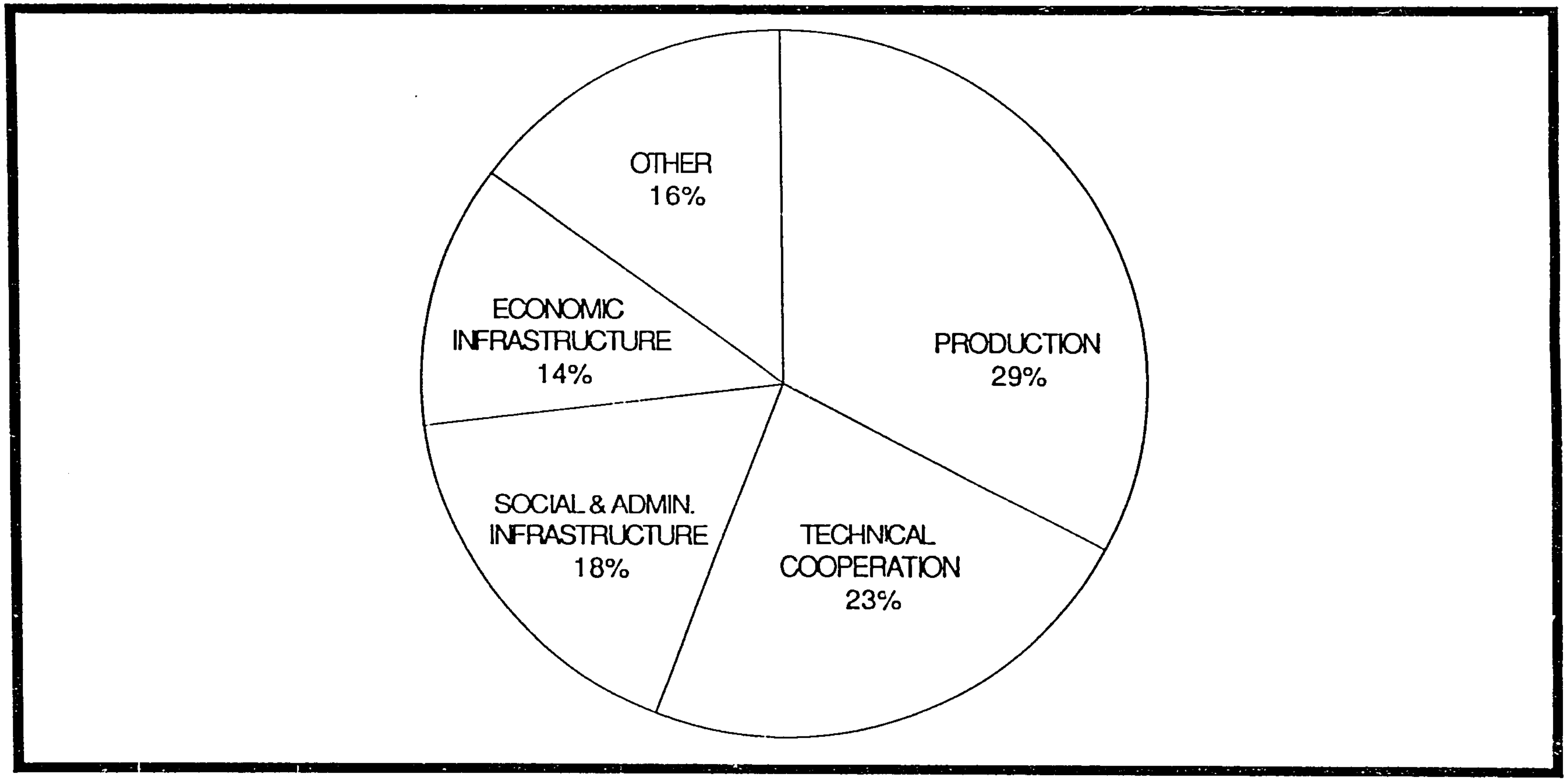
(Including CMEA)



Total: US $713.6M

EXHIBIT 11

DISTRIBUTION OF DONOR ASSISTANCE BY PURPOSE: 1987



Source: *Geographical Distributions of Financial Flows to Developing Countries.* Paris: OECD, 1989.

EXHIBIT 12

5 Pillars Of Private Sector Strategy

- Employment generation
- Export promotion
- African enterprise development
- Equity Capital mobilization
- Promoting an enabling environment for private enterprise

EXHIBIT 13

PRIVATE ENTERPRISE IN KENYA: THE VIRTUOUS CYCLE

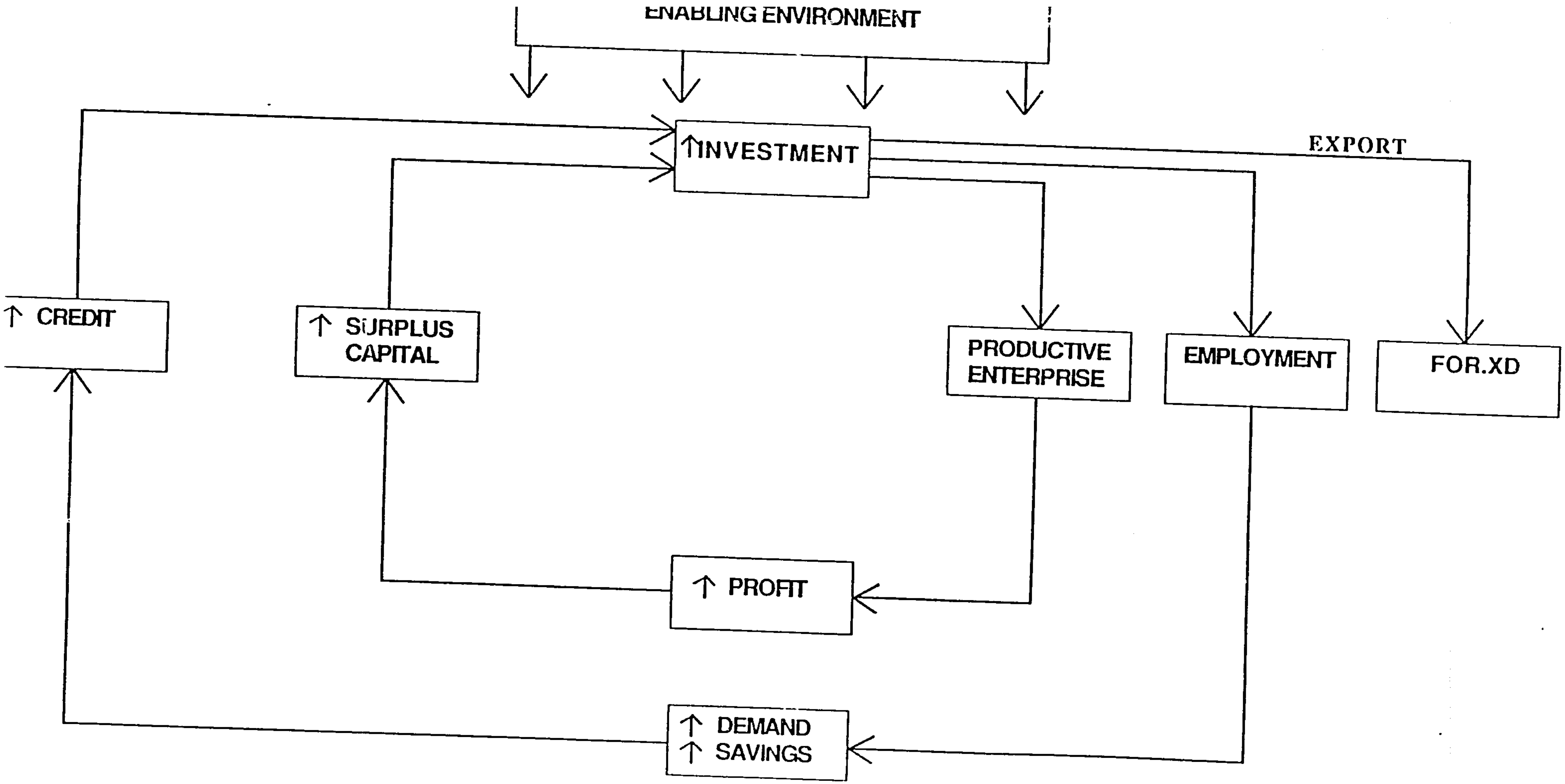


EXHIBIT 14

SCHEDULE OF ACTIVITIES -- MAPS EXERCISE IN KENYA

ACTIVITIES	FEB.			MARCH				APRIL				MAY				JUNE			AUG.		SEPT.		
	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	3	4	1	2	3
STRATEGY ART.	X	X	X																				
DESCRIPTION																							
• Define Scope	X	X																					
• Contractors	X	X																					
• Preliminary Graphics						X			X														
• Final Graphics											X												
SURVEY																							
• Define Scope	X	X																					
• Draft Survey	X	X	X																				
• Contractors	X	X																					
• Set Sample					X	X	X	X	X														
• Test Survey										X													
• Do Survey											X	X	X	X	X	X							
• Input Data														X	X	X	X						
• Frequency Distributions																X	X						
• Final Graphics																		X					
DIALOGUE																							
• Informal Focus Groups	X	X	X			X	X		X	X	X			X	X								
• Formal Focus Dialogue																			X	X	X		
• Summarize																					X	X	
STRATEGY DEVELOPMENT																							
• Draft Final																						X	
FINAL PRESENTATION																							X
T D Y	X	X	X						X	X	X			X	X	X	X		X	X	X	X	X

ANNEX 1

SCOPE OF WORK FOR PRIVATE SECTOR DESCRIPTION

CONTRACT FOR DESCRIPTION OF THE PRIVATE SECTOR IN KENYA

TO BE PERFORMED BY AMT MANAGEMENT CONSULTANTS

FOR J.E. AUSTIN ASSOCIATES

The objective of the Private Sector Description is to gather and present relevant data about the private sector which will permit the USAID Mission to understand clearly what and how significant the private sector is and where it is located. Key questions include:

- Who is the private sector?
- How important is it in the economy?
- Where is it located?
- How strong are the capital markets?
- What is the role and size of the public sector in the productive sectors?
- What is the private sector impact of public policies and the regulatory environment?
- How has the private sector performed over time?
- What are leading and lagging sectors?

In the case of Kenya, additional issues of interest which should be addressed by the description will include:

- What is the participation of African Kenyan, Asian and foreign interests in the economy?
- How has this composition changed over time?
- What is the contribution of the tourism sector to net foreign exchange earnings? How has this compared over time with the contribution of exports?

The specific output of the description phase includes a data set and graphics, formats of which have been provided.

2. AMT Management Associates (herein referred to as "the Contractor") will identify data sources and develop reliable statistics that describe (both in absolute terms and relative to public sector contribution) the private sector contribution to value added, export earnings, investment, savings and employment, at both the national and sectoral levels.

   a. These statistics will, to the extent possible, cover the period 1972 to 1988. Where data are not available for 1988, the Contractor may have to use estimates or omit that year from the estimates. In all cases the Contractor will, subject to data availability, provide at least a ten year spread for the estimates which will be specified below.

   b. These statistics should come from the most recent and reliable sources available.

   c. Sectors of interest are: Agriculture, Forestry and Fishing, Agro-processing, Mining, Manufacturing, Construction, Finance, Tourism and other services. Within each of these sectors, data will be broken down at the following level of detail, unless otherwise specified:

      i. Agriculture production: Cereals (wheat, maize, rice, others), Sugar cane, Pyrethrum, Coffee, Tea, Sisal, Fresh Horticultural Products, Livestock (dairy, meat)

      ii. Forestry and Fishing

      iii. Mining and Quarrying

      iv. Manufacturing:

         o Agro-Processing -- Meat and dairy products, Canned Vegetables (oils and fat), Grain Mill Products, Bakery Products, Sugar and Confectionery, Beverages and Tobacco, Textiles, Wood, Pulp and Cork products, Hides and Skins, and Other Miscellaneous Food

Products.

o Other Manufacturing -- Petroleum & other chemicals, Industrial Chemicals, Clothing, Leather and Footwear, Furniture and Fixtures, Rubber Products, Plastic Products, Non-Metallic Mineral Products, Metal Products, Electrical Machinery, Transport Equipment, Other Miscellaneous Manufactures.

v. Construction

vi. Finance and Business services: Commercial Banks, Development Banks, Building and other Societies, Insurance Companies, Other Non-bank Financial Institutions.

vii. Other Services:

o Trade, Restaurants, Hotels

o Transport (including air, road and rail), Storage, Communications

o Other Services

3. Using Lotus (or another comparable spreadsheet program), the contractor will incorporate the statistics identified and developed in point no 1 into a matrix which will be used to estimate the following parameters at both the national, sectoral and subsectoral level (as described in 2.c above):

a. GDP growth rate 1957 to 1988 (or for the most recent years available).

b. Contribution of private sector to GDP 1972 to 1988 (or for the most recent years available), although an effort should be made to gather this type of data for at least some previous years.

c. Contribution of private sector to employment (disaggregated by African Kenyan, other Kenyan and expatriate labor, male and female, if available) for 1972 to 1988 (or for the most recent years available).

d. Contribution of private sector to GOK gross receipts, compared to other sources of revenue. This will be done for the years 1972 to 1988 at aggregated by SITC as follows: Agriculture and Forestry, Mining and Quarrying, Manufacturing, Construction, Trade Restaurants and Hotels, Transport and Communications, Finance and Business Services, Other.

e. Contribution of private sector to new investment 1972 to 1988 (aggregated if possible as specified in 2.c above).

f. Contribution of private sector to foreign exchange generation (1972 to 1988 by subsector as specified in point 1.c).

g. Contribution of private and public sector to total hotel room supply (at least a ten year time series).

h. Market shares of hotel room supply for the largest firms.

i. Private and public sector borrowing as percentage of total credit available (1978-1988)

j. Market share of major financial institutions (deposits, savings, loans).

4. The contractor will also collect data to estimate the following:

    a. Foreign (private) Capital Inflows (1972 to 1988): Direct investment in Kenya (equity and reinvested, other private long-term capital, other private short-term capital) in absolute terms and as percentage of total capital inflows.

    b. Government budget (disaggregated into central and parastatal) as percentage of GDP (1972 to 1988).

    c. GOK equity shares by industry sector.

d. Exports by destination (1972 to 1988), disaggregated as follows: EEC, Other Western Europe, Eastern Europe, USA, PTA, Other African Countries, Middle East, Asia, Other.

e. Exports by SITC category as specified in point 3.d above.

f. Imports by SITC category (disaggregated as specified in point 3.d), in absolute terms and as a percentage of total value of output (1972 to 1988).

g. The Contractor will provide a description/assessment of the role of the multinational corporations in the economy, including: MNC contribution to employment, fiscal revenue, value added (disaggregated by sector as specified in 3.d) and source of MNC investment (percentage of investment coming from US, UK, FRG, Other European, Japan and other).

h. The Contractor will provide estimates (disaggregated by gender if possible) of the percentage growth in the Kenyan labor force -- 1990-2000. It will compare the past and future growth in the labor force to that in Brazil, U.S. and an average projection for Africa.

i. The Contractor will provide estimates of Public and Private Sector share of credit available from domestic financial institutions for the years 1972-1988 and projections (to the extent available) of credit use 1985-2000. Effort should be made to disaggregate Private Sector share of credit by SITC category as specified in 3.d.

5. The contractor will identify and develop descriptive statistics on parastatals for the years 1972 to 1988 (to the extent possible), including:

a. The contribution of parastatals (disaggregated by SITC -- see 3.d above) to GDP.

b. Contribution of parastatals to direct and indirect employment disaggregated by SITC).

c. Contribution of parastatals to foreign exchange generation and to volume of exports by SITC (see 3.d above).

d. Financial results (profits and losses) for parastatals, by SITC.

e. Parastatal losses (or profits) as a percentage of their contribution to GDP and as a percentage of foreign exchange generated.

6. The contractor will identify and develop, subject to data being available, descriptive statistics on small scale enterprises (SSE's). In particular data will be expected on SSE contribution to GDP (disaggregated as specified in 2.c above) and employment (African Kenyan and Other and by gender) for the most recent years available.

   Small scale enterprises are defined here as under KSh 10,000,000 in capital and employing fewer than 50 employees.

   To the extent that there is data available similar statistics will be developed for the informal sector enterprises (less than 3 employees).

7. The contractor will identify and develop, subject to availability, descriptive statistics on medium scale enterprises (MSE's). In particular, data will be expected on MSE contribution to GDP (disaggregated as specified in 1.c above), fiscal revenue, and employment (African Kenyan and Other and by gender), for the most recent years available.

   Medium scale enterprises are defined here as those employing 51 to 99 workers and listing assets between KSh 10-25 mn.

8. The Contractor will compile a list of the local sources for managerial and technical training available in Nairobi, Mombasa, other Major towns and secondary towns and estimate their yearly output (graduates by field from polytechnical institutes, university, other colleges, other training centers, and major in-house training programs).

9. The Contractor will compile the following lists:

   a. The top 10 Asian business groups, the sectors in which they have operations and their CEO's

b. Venture capital organizations and their CEO's

c. Major tourism companies and the contact person

d. Major real estate developers, their projects their CEO's

e. Kenya business development/charitable foundations

f. 10 largest cooperative societies in Kenya, their assets, and CEO or contact person.

g. Key business leaders in Agriculture, Agro-processing, Manufacture, Finance, Tourism.

h. Top 10 African Kenyan business groups or enterprises, the sectors in which they have operations and their CEO's.

10. The Contractor will provide a composition (Asian, Kenyan African, Foreign, Public Sector) of the shareholders in the companies subscribed to the Kenya Association of Manufacturers.

11. Nairobi Stock Exchange:

The Contractor will compile a time series (1954 - 1988) showing the number of companies listed in the NSE and the total capitalization. It will also provide data on ownership of firms in the NSE (shares belonging to expatriates, Asians, African Kenyan, GOK).

12. An overview of the regulatory environment under which businesses in Kenya operate. This short be a short document summarizing basic regulations concerning repatriation of dividends, licensing requirements, tax policy, labor regulations (expat and local).

13. It is possible that data beyond that identified above may be identified as the MAPS exercise progresses, or that some of the data identified above is not available. It is important that the Contractor and the JE Austin Associates Project Monitor remain in close contact throughout the exercise and that flexibility be maintained by both parties.

14. The Contractor will develop a set of high quality graphics which will illustrate the data estimates described in nos. 2 through 8 above. The contractor will also be expected to include a diskette with a copy of the spreadsheet as part of the deliverables. The graphics which will be provided will be identified by the project monitor for JE Austin Associates and the USAID/Kenya Mission after receipt of the spreadsheets with the data specified above.

15. Estimates for nos. 2 through 8 above are acceptable, provided the methodology for obtaining these estimates is sound and fully specified.

16. The Contractor will provide bi-weekly updates to the Mission and the MAPS project monitor designated for this project on the progress towards the objectives specified above.

17. It is expected that the time period allowed for this exercise will not exceed 4 weeks. Approximately 40 to 50 graphics will be produced. The Contractor should refer to the mock-ups of the graphics provided by J.E Austin Associates.

18. Data sources:

    It is not expected that the work detailed in sections 2 through 12 above will require original research; only secondary data sources should be used.

19. The budget for this exercise is as follows:

STAFF COSTS:

Personnel	Person Days	US$ Rate (US$)	Total
Senior Economist	5	767.00	3,835.00
Economist	21	295.00	6,195.00
Research Assistant	20	149.50	2,990.00
Research Assistant	20	128.50	2,570.00
SUB-TOTAL (STAFF)			15,590.00
OTHER EXPENSES			
Transport and Courier			200.00
Printing & Photocopying			200.00
Telephone & Telex			200.00
SUB-TOTAL (OTHER)			600.00
TOTAL			16,190.00

The contract will be based on time and materials costs, with the understanding that the scope of work specified above will be delivered within the time specified and to the satisfaction of J.E. Austin Associates and USAID, and that the budget ceiling specified above will not be exceeded. The Contractor has also agreed to provide desk space and the logistical support necessary to carry out the project for J.E. Austin Associates.

20. The time frame for this exercise is as follows:

March 27	Provide output specified in nos. 8-9 above
April 17 spreadsheets	Provide preliminary on remaining items
April 29	Provide final spreadsheets
Seven days after receiving comments spreadsheets from Project Monitor and USAID Mission	Final graphics and due

21. The payment schedule is as follows: 25 percent of the total upon receipt of output upon nos. 8 and 9, 25 percent upon receipt of the preliminary spreadsheets and the remaining upon receipt of the final deliverables, including the graphics and diskette with the spreadsheets.

Agreed to by

Kevin X. Murphy

J.E.Austin Associates Consultants

AMT Management

ANNEX 2

SCOPE OF WORK FOR PRIVATE SECTOR SURVEY

CONTRACT FOR THE SURVEY OF THE

PRIVATE SECTOR IN KENYA

TO BE PERFORMED BY AMT MANAGEMENT CONSULTANTS

FOR J.E. AUSTIN ASSOCIATES

1. AMT Management Consultants (herein referred to as "the Contractor") will undertake a survey of businesses which will provide unbiased, statistically significant information on the perceptions of local entrepreneurs regarding opportunities and constraints for private sector development in Kenya.

2. The survey undertaken by the Contractor will cover private sector firms in the following industry sectors:

   a. Commercial Agriculture, focusing on non-traditional crops for export such as fresh horticultural crops (including pineapples, mangoes, avocadoes, peppers, mushrooms, green beans, eggplants, cut flowers), and other non-traditional commercial agricultural activity.

   b. Aquaculture and fishing -- including freshwater and marine fish and shellfish.

   c. Agro-processing: includes canned fruit and vegetables, hides and skins, textiles, sugar and products, cotton and wool, sugar products, meat and dairy, other.

   d. Tourism (hotels, restaurants, lodges).

   e. Other Services: principally transport services and services of relevance to agriculture (seed processing, agricultural machinery, fertilizer).

   f. Manufacturing

3. The survey will exclude all firms (private, profit or not-for-profit, and public) in the social services sector (health, education, etc.).

4. The survey instrument will be developed by the MAPS team in consultation with the USAID Mission.

5. The Contractor will help reword the survey instrument so that it may be used to survey small scale enterprises (see paragraph 8 below). It will also be responsible for translating the survey instrument if needed.

6. The Contractor will be responsible for testing the survey instrument on a small number of businesses chosen at random prior to full implementation to insure that the questions are understandable to the interviewees. The Contractor will work with the JE Austin Associates Project Monitor and the USAID/Kenya Mission to revise the survey instrument on the basis of the results from the field test.

7. The sampling frame of firms will need to be as complete as possible to prevent biasing the sample. The contractor will identify appropriate sampling frames for this task, in consultation with the MAPS project monitor and the USAID Mission. The sample will be limited to the major towns (and their surrounding areas) of Nairobi, Mombasa, Kisumu, and Nakuru and four secondary towns where there is a concentration of the industries identified in point 2 above. These will be: Thika, Malindi, Eldoret/Katale/Kisii, Kakamega,, Naivasha. In addition, small scale rural-based enterprises operating outside these centers will be included, insofar as they appear in the registries of organizations providing assistance to these enterprises (see point 7 below).

8. The sample size is expected to be approximately 500 firms; 250 of these should be small scale enterprises (SSE's), which for the purposes of this contract are defined as firms employing less than 50 persons and with less than KSh 10 mn in fixed capital assets operating in the sectors identified in paragraph 2 above.

9. The sampling frame for the SSE's will be established on the basis of the registries of cooperatives, NGO's, and other organizations (KIE) providing credit and/or technical assistance to SSE's in the cities and towns specified above. The sampling frame for the larger enterprises will depend on the availability and adequacy of comprehensive lists. The lists used by the GOK to undertake its annual survey of industries may be a possible source. Other sources include the registries of business associations such as the Kenya Association of Manufacturers, the Kenya National Chamber of Commerce and Industry. The Contractor will propose a strategy for constructing a sampling frame and drawing the sample so it meets the requirements regarding sample composition specified in paragraphs 1 through 8.

10. The sample will be drawn using stratified random sampling. It may be necessary to stratify the sample to insure that there are at least 30 firms sampled in the key sectors of interest defined in point 2 above.

11. The contractor will assemble a team of personnel experienced in survey work to implement the survey. The contractor will be in charge of recruiting and training the interviewers, testing the survey instrument, overseeing the survey at the field level to insure quality control, and codifying the survey responses to facilitate data entry and analysis.

12. The contractor will assemble a team to enter the codified responses into a database processing system which can be imported into a statistical package adequate to analyze the responses, such as SPSS.

13. The output expected from the data processing will include the following:

    a. Frequency distributions of responses to all the questions in the survey instrument.

    b. Cross tabulations of specific responses using as control variables firm characteristics. The control variables used for the cross tabulations will include at a minimum: sector in which the firm operates, size (employee), ownership characteristics (owner gender and ethnic origin).

c. Non-parametric tests to measure the statistical significance of relationships between categorical variables (such as the chi-square) for specific cross-tabulations.

14. The Contractor will be responsible for producing high quality graphics to illustrate key survey results. The MAPS project monitor, in consultation with the USAID Mission, will specify a list of the graphics needed after analyzing the output described above. The final product expected will include the diskette with the data entered from the survey and a maximum of approximately 40 to 50 graphics.

15. The budget for this exercise is as follows:

STAFF COSTS

Personnel (US$)	Person Days	Rate(US$)	Total
Project Director	3	767.00	2,301.00
Team Leader	15	560.00	8,400.00
Field Supervisor	20	149.50	2,990.00
Computer Specialist	5	239.00	1,195.00
Computer Technician	10	107.00	1,070.00
Interviewers	175	119.00	20,825.00
SUB-TOTAL (STAFF)			36,781.00

OTHER COSTS

ITEM	
Transport to sites	1,000.00
Transport on site	500.00
Accommodations	4,200.00
Printing & photocopying	800.00
Telephone and Telex	200.00
SUB-TOTAL (OTHER)	6,700.00
TOTAL	43,481.00

The contract will be based on time and material costs, with the understanding that the scope of work defined above will be delivered to the satisfaction of J.E. Austin Associates and USAID within the time period specified and that the budget ceiling specified will not be exceeded. The Contractor has also agreed to provide desk space and the logistical support necessary to carry out the project for J.E Austin Associates.

16. The timing and delivery dates for this exercise are as follows:

March 13- April 14	Establish the sampling frame and draw the sample, and begin
contacting	interviewees.
April 17-22 revise	Test the survey instrument and if needed
April 24	Begin full scale survey
June 5 frequency	Survey ends and preliminary distributions due
June 12	Provide preliminary graphics
Seven days after receiving comments from Mission & Project Monitor	Final Graphics due

17. The payment schedule is as follows: 25 percent upon signing the contract, 35 percent upon receipt of the preliminary frequency distributions, and the remainder upon receipt of the final deliverables.

Agreed to by:

_________________________ _________________________

Kevin X. Murphy

J.E. Austin Associates Consultants Associates	AMT Management

ANNEX 3

SURVEY INSTRUMENT FOR KENYA

KENYA SURVEY

The purpose of the following survey is to gather information about the private sector in Kenya, the beliefs held by business persons on different aspects of doing business, and the general investment climate. This study is financed by the U.S. Agency for International Development (USAID). This information will assist USAID/Kenya in formulating its development strategy for the coming years. The information obtained here will be treated in a private and confidential manner. Nevertheless, questions deemed inappropriate do not have to be answered.

Questionnaire No. ____________

Name of Interviewer: ________________________

Approved by: ______________________________

Position of the person interviewed:

1. Owner
2. Manager
3. Professional/Technical
4. Other

Date the survey was performed: ______________ (day/month/year)

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SECTION 1: GENERAL INFORMATION OF THE FIRM

1. Location of the firm:

   1. Nairobi 2. Mombasa 3. Kisumu

   4. Nakuru 5. Thika 6. Malindi

   7. Kisii 8. Other [specify]:__________________ ______

2. Please indicate the number of persons you employ (full and part time): ________

3. What is the value of your fixed capital assets?

   1. Less than KSh 10,000
   2. KSh 10,000- KSh 100,000
   3. KSh 100,000 to KSh 500,000
   4. KSh 500,000 to KSh 5 million
   5. KSh 5 million to KSh 25 million
   6. KSh 25 million to KSh 100 million
   7. Over KSh 100 million ______

[NOTE: Contractor will very appropriate categories above, based on final sampling frame]

4. Please specify the gender of the owner (or the majority shareholder) of this firm:

   1. Male 2. Female 3. Equal proportion of shares held by male and female ______

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5. How many of your employees are:

   1. Female ________

   2. Kenyan African ________

6. What proportion of your labor force requires specialized training?

   1. Less than 5%

   2. 5-20%

   3. 21-40%

   4. 41-60%

   5. Over 60%

7. What proportion of your SKILLED labor force (requiring specialized training) is African Kenyan?

   1. Less than 10 percent

   2. Between 11 and 25 percent

   3. Between 26 and 50 percent

   4. Over 50 percent ______

8. What proportion of your SKILLED labor force (requiring specialized training) is FEMALE?

   1. Less than 10 percent

   2. Between 11 and 25 percent

   3. Between 26 and 50 percent

   4. Over 50 percent ______

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9. What proportion of your top management team (the company decision-makers) is African Kenyan?

   1. Less than 5 percent
   2. Between 6 and 10 percent
   3. Between 11 and 25 percent
   4. Between 26 and 50 percent ______
   5. Over 50 percent

10. What proportion of your top management team (the company decision-makers) is FEMALE?

   1. Less than 5 percent
   2. Between 6 and 10 percent
   3. Between 11 and 25 percent
   4. Between 26 and 50 percent ______
   5. Over 50 percent

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11. Sector in which your business operates (may mark more than one category if applicable):

1. Agriculture production[3] (go to no. 12) ______

2. Processing of agricultural products[4] (go to no. 13) ______

3. Services[5] (go to no. 14) ______

4. Manufacturing[6] (go to no. 15) ______

5. Commerce (go to no. 16) ______

---

[3]Agriculture production refers to fruit, timber, livestock production, for example.

[4]Refers to the processing of livestock/meat products (including dairy), processed fruits and vegetables, cotton ginning, wood products (e.g. charcoal, pulp), agriculture inputs (e.g. feed mill, fertilizer, seeds, implements).

[5]Refers to sales/repairs of vehicles, transportation, tourism, communications, for example.

[6]Includes handicrafts, textiles, clothing, finished wood products, metal products, confectionery/baking, assembly, beverage and brewery products, for example.

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ONLY

12. Mark the appropriate subcategory if involved in the agriculture sector:

1. Cereals ______
2. Fruit and vegetables ______
3. Other horticultural crops ______
4. Livestock ______
5. Timber ______
6. Aquaculture ______
7. Fishing ______
8. Flowers ______
9. Other [specify]:______________ ______

(Go to NO. 17)

13. Mark the appropriate category if involved in the agricultural processing sector:

1. Animal products (meat and dairy) ______
2. Milling ______
3. Processed fruit and canning ______
4. Processed vegetables ______
5. Hides and Skins ______
6. Ginning ______
7. Other [specify]:______________ ______

(Go to NO. 17)

FOR CODIFIER ONLY

14. Mark the appropriate category if involved in the service sector:

1. Vehicle and Appliances Repairs ______
2. Transportation ______
4. Communications ______
5. Tourism (hotels/travel agencies) ______
6. Other [specify]:______________ ______

(GO TO NO. 17)

15. Mark the appropriate category if involved in the manufacturing sector:

1. Handicraft ______
2. Clothing ______
3. Finished wood products ______
4. Plastics ______
5. Metal products ______
6. Textiles ______
7. Confectionery/baking ______
8. Assembly ______
9. Brewing and beverage products ______
10. Machinery and equipment ______
11. Paper and Paper products ______
12. Leather and footwear ______
13. Chemical and pharmaceutical ______
14. Other [specify]: ______________ ______

(Go to NO. 17)

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ONLY

16. Mark the appropriate category if involved in commerce:

1. Wholesale ______
2. Retail ______
3. Both wholesale and retail ______
4. Direct import ______
5. Export ______
6. Both import and export ______
7. Other [specify]: ________________ ______

17. What percentage of your sales are to:

1. Domestic market ______ ______
2. EEC ______ ______
3. PTA ______ ______
4. Other Africa ______ ______
5. North America ______ ______
6. Near East ______ ______
7. Japan ______ ______
8. Indian subcontinent ______ ______
9. Other Asian ______ ______
10. Other ______ ______

FOR CODIFIER ONLY

18. What proportion of your raw materials are imported from:

	Less than 25 %	26-50%	Over 50%	
1. EEC	1	2	3	_______
2. Middle East	1	2	3	_______
3. Japan	1	2	3	_______
4. Indian subcontinent	1	2	3	_______
5. Other Asia	1	2	3	_______
6. USA	1	2	3	_______
7. PTA	1	2	3	_______
8. Other Africa	1	2	3	_______
9. Other Foreign	1	2	3	_______
10. Local	1	2	3	_______

[NOTE: Contractor may want to change above percentages]

19. Do you have equity holders who are NOT of African Kenyan origin?

1. YES 2. NO 3. Don't know _______

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20. Are some of your shareholders public institutions (Kenyan only)?

1. YES 2. NO 3. Don't know/no answer ______

[if YES, go to no. 21] [If NO or don't know, go to no. 22]

21. What proportion of total shares are

owned by public Kenyan organizations? _____ ______

FOR CODIFIER ONLY

SECTION 2: FACTORS ACCOUNTING FOR BUSINESS PERFORMANCE

22. The environment within which my firm operates today is:

1. better today than it was a year ago. ______
2. worse today than it was a year ago.
3. has not changed in a year.

23. How have the following factors affected the performance of your business over the last year?:

	No Effect	Some Effect	Large Effect	Don't Know	
1. Raw material prices	1	2	3	4	______
2. Raw material availability	1	2	3	4	______
3. Interest rates	1	2	3	4	______
4. Exchange rate	1	2	3	4	______
5. Taxes	1	2	3	4	______
6. Tax incentives	1	2	3	4	______
7. Output prices	1	2	3	4	______
8. Loan collateral requirements	1	2	3	4	______
9. Government pronouncements/actions	1	2	3	4	______

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24. How has your sales volume changed since February of 1988? ______

    1. There has been a significant improvement.
    2. There has been some improvement.
    3. Has not changed
    4. Has deteriorated somewhat.
    5. Has deteriorated significantly.
    6. Unsure/don't know

25. What do you think will happen to your sales over the next twelve months? ______

    1. There will be a significant improvement.
    2. There will be a slight improvement.
    3. It will not change.
    4. It will deteriorate somewhat.
    5. It will deteriorate significantly.
    6. Unsure/don't know

Specify the extent to which you agree with the following statements:

26. If I had more product, I could sell more.

    1. Agree   2. Disagree   3. Unsure/don't know ______

27. I am unable to sell all the product I stock.

    1. Agree   2. Disagree   3. Unsure/don't know ______

FOR CODIFIER ONLY

28. Specify how important the following factors have been in influencing your sales last year:

	Very Important	Somewhat Important	Not Important	Not Apply	
Competition from other private Kenyan firms	1	2	3	4	______
2. Competition from parastatals	1	2	3	4	______
3. Competition from foreign firms	1	2	3	4	______
4. Low demand for my product	1	2	3	4	______
5. Lack of market infrastructure (such as warehouses, cold storage facilities, etc.)	1	2	3	4	______
6. Transportation (road)	1	2	3	4	______
7. Transportation (air cargo)	1	2	3	4	______
8. Transportation (rail)	1	2	3	4	______
9. Transportation (other)	1	2	3	4	______
10. Lack of market information	1	2	3	4	______
11. Access to production technology	1	2	3	4	______
12. Government incentive policies	1	2	3	4	______

[QUESTION 28 -- CONTINUED]

28. Specify how important the following factors have been in influencing your sales last year:

	Very Important	Somewhat Important	Not Important	Not Apply	FOR CODIFIER ONLY
13. Government capital market regulations	1	2	3	4	______
14. Other Government regulations (work permits, licensing, etc.)	1	2	3	4	______
15. GOK marketing controls					
16. Tax Policies	1	2	3	4	______
17. GOK borrowing policies	1	2	3	4	______
18. GOK export promotion incentives	1	2	3	4	______
19. Distance from market	1	2	3	4	______

FOR CODIFIER ONLY

SECTION 3: RESOURCE CONSTRAINTS AND GOVERNMENT POLICIES

29. Please indicate if the following factors have had an effect on the productivity of your firm:

	Negative Effect	Positive Effect	No Effect	Not Apply	
1. Access to credit	1	2	3	4	______
2. Access to raw materials	1	2	3	4	______
3. Access to land	1	2	3	4	______
4. Access to skilled/ supervisory labor	1	2	3	4	______
5. Access to services (energy,)	1	2	3	4	______
6. Access to water	1	2	3	4	______
7. Access to transport	1	2	3	4	______
8. Price of transport	1	2	3	4	______
9. Power (price or reliability)	1	2	3	4	______

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[QUESTION 29 - CONTINUED]

29. Please indicate if the following factors have had an effect on the productivity of your firm:

	Negative Effect	Positive Effect	No Effect	Not Apply	
10. Quality of services other than electricity	1	2	3	4	______
11. Availability of suitable premises	1	2	3	4	______
12. Security of premises	1	2	3	4	______
13. Access to spare parts for machinery	1	2	3	4	______
14. Access to suitable machinery	1	2	3	4	______

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Please specify the extent to which you agree with the following statements:

30. Difficulty in obtaining access to land has been a constraint to the growth of my business.

1. Agree 2. Disagree 3. Unsure/don't know ______
4. Not Applicable

31. Lack of land tenure security has been a constraint to the growth of my business.

1. Agree 2. Disagree 3. Unsure/don't know ______
4. Not Applicable

32. I am satisfied with the productivity of my labor force.

1. Agree 2. Disagree 3. Unsure/don't know ______
4. Not Applicable

33. I have had to invest a lot in training my employees.

1. Agree 2. Disagree 3. Unsure/don't know ______
4. Not Applicable

34. I have increased investment in employee training because government incentives make it attractive to do so.

1. Agree 2. Disagree 3. Unsure/don't know ______
4. Not Applicable

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35. Unskilled and semi-skilled labor wages are too high, compared to other competing with Kenya for foreign investment.

1. Agree 2. Disagree 3. Unsure/don't know ______

4. Not Applicable

36. I have to pay very high salary and benefits packages to attract quality technical or professional personnel.

1. Agree 2. Disagree 3. Unsure/don't know ______

4. Not Applicable

37. I have to pay very high salary and benefit packages to attract quality managers or administrators.

1. Agree 2. Disagree 3. Unsure/don't know ______

4. Not Applicable

38. The need to pay high salary and benefits packages to attract quality labor has hindered the development of my business.

1. Agree 2. Disagree 3. Unsure/don't know ______

4. Not Applicable

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39. For the following personnel categories, please specify how difficult it has been to obtain African Kenya persons with the training/experience needed in your firm:

	Difficult	Average	Easy	
1. Administrative Personnel	1	2	3	______
2. Secretarial Personnel	1	2	3	______
3. Professional Personnel	1	2	3	______
4. Technical Personnel	1	2	3	______

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40. Please provide an estimate of the percentage of your capital (long and short term) which comes from the following categories:

	Less than 20%	Between 21-50%	More than 50%	Not Sure	
1. Local commercial banks (KCB, Barclays, Standard, etc.)	1	2	3	4	______
2. Merchant Banks	1	2	3	4	______
3. Development bank	1	2	3	4	______
4. Cooperative Society	1	2	3	4	______
5. Other financial institutions	1	2	3	4	______
6. Foreign sources	1	2	3	4	______
7. Remittances	1	2	3	4	______
8. Family/ friends	1	2	3	4	______
9. Personal	1	2	3	4	______
10. Not apply	1	2	3	4	______
11. Other [specify]:____________	1	2	3	4	______

Do you agree with the following statements:

41. Collateral requirements make it difficult for me to obtain financing.

1. Agree 2. Disagree 3. Unsure/don't know ______

4. Not Applicable

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42. It is easier for me to obtain working capital than it is to obtain long-term capital.

1. Agree 2. Disagree 3. Unsure/don't know ______

4. Not Applicable

43. I have left undeveloped because of lack of capital:

1. many projects ______

2. a few projects

3. no projects

44. What has been the effect of existing collateral requirements?

1. They inhibit production/expansion plans. ______

2. They are an inconvenience, but have had no real effect on business expansion or investment.

45. Have you had difficulty obtaining the raw materials that you need to operate?

1. YES 2. NO 3. NO ANSWER ______

[if YES go to 46] [if NO or NO ANSWER, go to 47]

FOR CODIFIER ONLY

46. Specify how important the following factors have been in influencing your firm's ability to procure all the inputs it needs:

	Very Important	Somewhat Important	Not Important	Not Sure	
1. Availability of financing	1	2	3	4	______
2. Lack of cooperative buying	1	2	3	4	______
3. Availability of transportation	1	2	3	4	______
4. Cost of transportation	1	2	3	4	______
5. Import licensing controls	1	2	3	4	______
6. Scarcity of products	1	2	3	4	______
7. Availability or quality of packaging	1	2	3	4	______
8. Other [specify]: ________	1	2	3	4	______

Specify the extent to which you agree with the following statements:

47. Reliable and accurate information on the local market trends for my product is available.

1. Agree 2. Disagree 3. Unsure/don't know ______

4. Not Applicable

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48. Accurate and reliable information on the international market for my product is available.

1. Agree   2. Disagree   3. Unsure/don't know   ______

4. Not Applicable

49. Specify the sources which you use to get information on the market for your product (may mark more than one):

1. The Ministry of Commerce ______

2. Kenya Export Promotion Authority ______

3. KTDC ______

4. Personal Contacts ______

5. Foreign Partners ______

6. The Kenya National Chamber of Commerce and Industry ______

7. Trade journals or newspapers ______

8. National Marketing Board ______

9. Horticultural Development Authority ______

10. Kenya Association of Manufacturers ______

11. Other [specify]: ______________________ ______

[NOTE: The Contractor may add others it thinks appropriate]

Do you agree with the following statements:

50. I have access to appropriate production technology for my business.

1. Agree   2. Disagree   3. Unsure/don't   ______

4. Not applicable

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51. On a scale of 1 to 4, indicate how important the following are as a constraint to the growth of your business:

	A serious constraint			Not a Problem	Not Apply	
1. Lack of air cargo space	1	2	3	4	5	______
2. Price of air cargo space	1	2	3	4	5	______
3. Lack of land transport facilities	1	2	3	4	5	______
4. Price of land transport facilities	1	2	3	4	5	______
5. Lack of other transport facilities	1	2	3	4	5	______
6. Price of other transport facilities	1	2	3	4	5	______
7. Lack of a road network	1	2	3	4	5	______
8. Quality of road network	1	2	3	4	5	______

FOR CODIFIER ONLY

SECTION 4: OPPORTUNITIES

52. If you had the resources (time, money), in which of the following areas would you be most interested in investing to improve your current business operations?:

	Very interested			Not interested	
1. Personnel training and development	1	2	3	4	______
2. Improved production technology	1	2	3	4	______
3. physical capital (plant improvement)	1	2	3	4	______
4. Improving my management capability	1	2	3	4	______
5. Marketing	1	2	3	4	______

53. Have you formulated a specific plan to invest in any of the following areas?

	YES	NO	
1. Personnel training and development	1	2	______
2. Improved production technology	1	2	______
3. physical capital (plant improvement)	1	2	______
4. Improving my management capability	1	2	______
5. Marketing	1	2	______

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54. Which ONE of the following areas do you believe offers the best return on investment? ______

1. Agriculture production for fresh/processed domestic market
2. Agriculture production for fresh/processed export market
3. Agroindustry for domestic market
4. Agroindustry for export
5. Manufacturing for export
6. Manufacturing for domestic market
7. Construction
8. Tourism
9. Commerce and trade
10. Other services [specify]: ______________________
11. Other [specify]: ______________________

[IF ANSWERED 2 OR 4 OR 5 GO TO QUESTION 56, OTHERWISE GO TO QUESTION 57]

55. Which export market do you believe would be most profitable?

1. EEC ______
2. PTA
2. Other African countries
3. USA
4. Middle East
5. Asia
6. Other [specify]; ______________________

FOR CODIFIER ONLY

SECTION 5: ASSOCIATIONS

56. Are you affiliated with any type of business or trade association?

1. YES   2. NO   3. Unsure   ______

[if YES, no. 58]   [if NO or Unsure, no. 59]

57. Please specify which associations and rate how effective they have been representing your business interests:

	Very Effective	Moderately Effective	Not Effective	Don't Belong	
1. The Kenya Chamber of Commerce and Industry	1	2	3	4	______
2. The Kenya Association of Manufac.	1	2	3	4	______
3. Kenya Small Trader Society	1	2	3	4	______
4. Confederation of Women's Groups	1	2	3	4	______
5. Agricultural and/or Commodity Associations	1	2	3	4	______
6. Kenya Assoc. of Tour Operators	1	2	3	4	______
7. Hotel Association	1	2	3	4	______
8. Other	1	2	3	4	______

[SPECIFY]: ____________________

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58. Which of the following services would you want a business/trade association to offer (or increase)?

	Very Interested	Somewhat Interested	Not Interested	
1. Provide access to credit	1	2	3	______
2. Provide technical assistance	1	2	3	______
3. Develop personnel training services	1	2	3	______
4. Increase contact with Government	1	2	3	______
5. Feasibility studies	1	2	3	______
6. Provide marketing information	1	2	3	______
5. Other [specify]:______________________________	1	2	3	______

59. Specify which one BEST describes why you do not belong to an association: ______

1. No association provides services I find useful.
2. I am unwilling to pay membership dues.
3. I am not able to pay membership dues.
4. Membership restrictions
5. Other restrictions
6. Other

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60. Please estimate the composition of the shareholders in your firm:

	Less than 20%	21-50%	More than 50%	
1. Foreign (non-Kenyan)	1	2	3	______
2. African Kenyan	1	2	3	______
3. Other	1	2	3	______

61. Do you employ less than 4 people in your firm?

1. YES　　2. NO　　______

[if YES, GO to 62]　　[If NO, the survey ends here]

62. Have you had trouble borrowing to expand your business or start a new business in the past year?

1. YES [If YES, Go to 63]　　2. NO [If NO, Go to 64]　　______

63. Why could you not get a loan?　　______

1. Do not know how to apply
2. Do not know where to go
3. I do not have enough collateral
4. Banks are too far away
5. Banks are too impersonal
6. I am not a members of a cooperative or credit union
7. Other [specify]:________________

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64. What percentage of your product do you sell to:

1. Retail customers ________
2. Other Jua Kali ________
3. Government agencies ________
4. Parastatals ________
5. Private traders ________
6. Larger private firms ________

65. What percentage of your raw materials do you buy from:

1. Parastatals ________
2. Farmers ________
3. Other Jua Kali ________
4. Larger private firms ________
5. Private traders ________

SURVEY ENDS HERE

THANK YOU FOR YOUR COOPERATION

ANNEX 4

MEMORANDA OF INTERVIEWS

SUMMARY CONCLUSIONS FROM INTERVIEWS REGARDING CONSTRAINTS TO GROWTH

Below are the main points made regarding constraints to business development in Kenya during interviews with the MAPS Team. No attempt has been made to categorize them or assess the frequency with which they were mentioned. The full minutes of all the meetings attended by the MAPS Team from February 13 to March 3 follow in this section.

- Collateral requirements to obtain credit are too stringent (specially for small and micro-enterprises); they are generally between 150% and 200%.
- Equity capital is scarce, particularly for African Kenyan entrepreneurs
- Absence of venture capital except to some extent of Industrial Promotion Service (IPS) and Kenya Equity Management (Two projects are in the pipeline)
- Long delays in sanctioning loans
- Lack of land
- Poor management and technical skills
- GOK favors establishment of large-scale enterprises; not enough attention paid to the small entrepreneur
- Banks are too conservative and need more training in Assessing loan applications from small businesses
- Lack of short-term working capital for industry
- Lack of entrepreneurial culture among the African Kenyan
- Overcapacity of Kenyan industry; large-scale investment left idle by the demise of East African Community in the 1970s
- African Kenyans lack knowledge about international market opportunities
- Active GOK intervention in business which sometimes make entrepreneurs reluctant to disclose business plans
- Large bureaucracy, suspicious of private enterprise
- Distribution and price controls and/or need to have authorization for price increases distort business decisions, cause shortages and do not reflect real

scarcities

- Quality and supply of local inputs are poor
- Interest rates are too high
- Lack of sufficient incentive to promote exports
- Foreign exchange controls
- Credit ceilings and tight money supply
- Lack of "openness" and desire of Asian business people in educating and training African Kenyans
- Insufficiency of savings
- Low productivity of investment in Kenya
- Import tariff and licensing policies
- Labor immigration regulations that grant only a two-year work permit to non Kenyans which are non transferable
- High personal tax burden for executives

ORIENTATION MEETINGS WITH USAID

Meeting with Mr. Gordon Bertolin and Mr. Stafford Baker, 14/2/89
Participants: Jantio, San Martin, Greenberg, Wise

1. Areas of concern for the Mission were discussed. Some key sectors which should be covered in the data gathering exercises were:

   - Commercial agriculture -- excluding traditional crops for either export (tea, coffee, sisal) and for domestic consumption (maize and other staples). MAPS should focus on non-traditional crops with an export potential including horticultural crops, flowers, green beans, strawberries, aquaculture, sericulture.

   - Agricultural processing -- particularly the processing of locally produced non-traditional agricultural commodities, such as canned fruits and vegetables, seed processing.

   - Manufacturing -- with special emphasis on the smaller and medium scale light manufacturing enterprises, though larger firms will also be covered in the survey to the extent that they appear in the sample.

   - Services -- Tourism only.

   - Small Scale Enterprises -- rural based and small urban based manufacturing operations. The data bases which will provide the sampling frame for these will be the registries of firms kept by REP, SEFCO (funded by the GTZ). The survey will identify key cooperatives lending to the SSE's in certain urban centers which can also provide their registries for this exercise. Thus the MAPS survey will not be doing any preliminary survey work to identify firms beyond those which are already registered for lending purposes. One of the objectives of the exercise should be to identify systematic differences (in terms of area of operations, perceived constraints, ownership, performance) between those SSE's operating under USAID funded programs and those using other sources of financing.

2. The survey will concentrate on the larger cities of Nairobi, Mombasa, Kisumu, Eldoret. Two to three

additional secondary towns also need to be identified.

3. A key area of concern has to do with the constraints faced by SSE's in the "informal sector." USAID wishes to test to what extent credit is correctly perceived as the key constraint to SSE and indigenous Kenyan entrepreneurial development. How serious is credit as a constraint relative to other areas such as managerial skills and business planning skills (accounting, etc). At the moment the Mission is providing both credit and training to SSE's at a very high price, through the REP and Jua Kali program. Both programs require that applicants go through a set training program before they take out a loan. The PED evaluation will be looking into how effective these strategies have been. The survey exercise should serve as a way of investigating the need and effectiveness of TA of various types and credit/loan programs. The overhead for administering the REP program has been calculated in a recent evaluation at over 100%; the ratio of administrative cost per dollar of credit disbursed has been calculated at about 4:1. USAID is wondering if the present strategy with the heavy emphasis on general business planning management training is the correct one. Is the training needed by all types of applicants and in what areas, is it management training or technical training, and if the latter, technical training in what areas?

4. What are the possibilities of using other implementing agents, such as cooperative societies, to take the administrative burden of these programs. USAID has in the past made a conscious decision not to work with cooperatives. The perception is that these are poorly managed and/or corrupt. But USAID wants to reassess this perception; is this true, or are cooperatives a viable implementing agent/conduit for channelling SSE credit and TA.

5. Ethnic issues are of concern to the Mission. Economic growth will be impossible without the Asian businesses. But the growth of indigenous Kenyan owned enterprises is crucial for the socio-political stability of the country. The survey should identify ethnicity of ownership (at least whether a firm is owned by a Kenyan of African origin or not) and the sample should be drawn so as to insure a good representation of indigenous Kenyan owned businesses, even if this means over representing these firms in the sample in relation to their representation in the universe of firms operating in the country.

6. Basic data on parastatals will be gathered on the

description exercise (trend data such as the growth of deficits as proportion of GDP, general parastatal performance by sector over the last 20 years, parastatal contribution to employment, parastatal burden on the budget, etc). The key issue for MAPS to investigate with regard to these enterprises is what is the role of the parastatal in reaching the objectives set forth by the Mission as it seeks to foster growth and develop private enterprise in the country; how are the state monopolies, for example, affecting the performance of private sector firms. Here one should also address the effect of government borrowing to cover SOE deficits on private sector access to credit (the crowding out effect).

7. The issue of training needs faced by the private sector will be addressed by the survey and the information used to improve the linkages between the HRDA programs and Training for Development and the Mission's private sector development portfolio.

8. The key constraints the Mission believes affect most seriously business development, particularly agribusiness development are:

   - Transport infrastructure, particularly air cargo;

   - Collateral requirements and access to credit at reasonable interest rates;

   - The availability of export credit (and other special incentives mechanisms for exporters);

   - Access to imported inputs (quotas and tariff barriers);

   - Lack of well developed market infrastructure (cold storage facilities, warehouses);

   - Credit and repatriation restrictions for foreign businesses;

   - Quality of technical expertise (particularly in agriculture processing);

   - Access to land (difficulty leasing and buying land);

   - Other policy constraints: repatriation of dividends (takes along time), administration of GOK export incentives (tax rebates for inputs to be used for manufacturing exports), price controls, restrictive trade practices (restriction on distribution by manufacturers and the monopolies of parastatals.

Meeting with Mr. Migwe Kimemia 14/2/89
Participants: Greenberg, San Martin, Jantio

1. Mr. Kimemia oversees the KAM, IPC projects and the local currency funds which include the loans to the Jua Kali and DFCK programs providing credit and advisory services to SSE and medium scale enterprises.

2. The IPC is supposed to be a one stop shopping for foreign investors wishing to invest in Kenya. It is also supposed to be a lobbying agent, representing the interests of foreign investors in the government, facilitating their dealings with GOK and expediting the paperwork necessary to set up an enterprise in Kenya, including work permits etc. In reality it is run poorly. A key problem may be that it is run by the government and staffed by civil servants who are paid relatively poor wages and have neither the expertise or the interest in the private sector necessary to fulfill their responsibilities efficiently. The IPC is supposed to contract out studies on policy issues affecting the foreign investors in the country, but has produced none since it was established in 1987. The Mission is not sure how to go about increasing the efficiency of this organization or what alternatives exist for providing the types of services IPC is now supposed to offer.

3. KAM runs extremely well. It is an effective representative and advocate for the interests of the manufacturing sector. But KAM membership is restricte to the larger manufacturing concerns and does not include any SSE's. The smaller enterprises are represented by the Chamber of Commerce and the SSE's have no central effective advocate organization.

4. Jua Kali was supposed to be a self-sustaining loan project using commercial banks, but the administrativ costs of the program have been so high that despite tl large credit spreads and administrative costs subsidi provided by USAID the commercial banks are growing disinterested. Moreover the Kenya Commercial Bank is concerned that the handling of SSE's may damage their corporate image. Hence it wants the training and the screening to be handled by other organizations. The credit risk is not the real issue for them but the costs entailed in the screening, credit analysis and the training of applicants are. The Mission is exploring the possibility of moving the screening, credit analysis and training functions of the program to the newly created Ministry of Technical Training.] will do the initial screening, give their recommendations to the banks and then the banks will

administer the loan disbursements. This arrangement should lower the program's administrative costs from US$25 mn to US$10 mn. Coordinating mechanisms between the bank and the Ministry will be an important issue. The key issue here is whether or not the banks will have the right to refuse those individuals recommended by the Ministry, or if they will have to accept them. If the latter is the case it is doubtful that banks will agree to participate in this scheme.

5. Cooperative credit represents 45 % of GDP. Most of cooperative investments are channeled to building and construction and their credit is largely for personal loans. They have no collateral requirements.

6. Foreign borrowing is restricted. The Central Bank determines the maximum amount of borrowing allowed to a foreign firm based and their capital ratio.

Meeting with Mr. Justus Olomo 14/2/89
Participants: Jantio, San Martin, Greenberg

1. The RPE grant program is a credit project for medium and long-term financing being run through commercial banks (KCB, Barclays). It is implemented through the Central Bank which established a discount facility for the commercial banks. The agreement for the project was signed in 1983, but there was a three and a half year delay because agreement could not be reached regarding the discounting facility. Since the program began operating some 40 loans have been approved, primarily in the area of agro-processing. The largest loan has been KSh 6 mn and the smallest for KSh 200,000. The banks lend at 13% interest rate (the cost of credit is about 11% and the commercial rate is 15%).

2. The program is considered a success in that it got commercial banks to begin providing medium and long-term capital. Banks in Kenya have generally provided short-term credit only -- for a maximum term of three years.

3. The program also provides training on long-term lending for bank managers. Over 200 managers have been trained all over the country.

4. Collateral requirements are perceived as a major constraint for the medium and small firms.

5. Risk capital in Kenya is still in short supply.

6. To qualify for an RPE loan the firm must meet one of three eligibility criteria:

- o The cost of investment to job created ratio cannot exceed KSh 80,000;
- o The productive activity must have the potential for foreign exchange generation;
- o The firm must utilize local resources or locally available inputs.

It is restricted to rural activities, meaning activities located outside Nairobi or Mombasa, though activities which show strong linkages with rural areas and are located in either of these two cities may also qualify.

7. The loans have been made to firms all over the country, though the response to the program from firms in the Western part of Kenya has generally been less strong while that from the coast has been the strongest.

8. The grant component, administered by World Education, Inc. is for institutional strengthening and training NGO's which provide credit to SSE's. WEI also provides credit directly to SSE's (and under the PED component, WEI as a registered PVO in Kenya, can also take equity, though has yet to do so).

9. Exporting firms are supposed to receive a bonus from GOK based on the amount exported, though award of such a bonus can take up to two years to process.

Meeting with Mr. Jerry Tarte, Mr. K. Toh 14/2/89
Participants: San Martin, Jantio, Greenberg

1. In charge of the structural adjustment programs (SAP and SAAP).

2. The history of the SAP's and the SAAP's is one of missed opportunities. This could be a key mechanism to suggest/enforce policy reforms which have a direct impact on the private sector and are related to specific activities in the private enterprise development portfolio. But the conditions precedents or the covenants have never been systematically tied to these types of reforms. They have been generally in the area of macroeconomic reforms and agriculture, particularly in the area of fertilizer marketing.

3. The program has been successful in the area of

fertilizer marketing, but this is perhaps because this was a tangible policy issue where the GOK saw immediate positive benefits and in which it had a real interest. Conditionality has never really been successful in promoting changes to which the GOK was truly opposed.

4. The GOK has been particularly successful controlling the macroeconomic environment. It has good relations with the IMF and relations with the WB have been improving.

Meeting with Ms. Sandi Severn 2/15/89
Participants: Jantio, San Martin, Wise

1. Manages the KMAP and IESC IE programs. These programs provide management counseling assistance to firms in the private sector, with the exception of trash removal (to which IESC provided consulting).

2. KMAP consists of local businessmen volunteering their services as counselors for small enterprises in the formal sector. The counseling has been primarily in the areas of accounting, marketing, pricing and financial systems and to a much lesser extent in the area of production and technology. Apparently these firms have the technical know-how but no business background. IESC has provided some technical consulting in the area of production/operations. The most common request for IESC services are for improving the plant lay-out.

3. Most of the firms assisted are in the Nairobi area, though there have been numerous inquiries about the services from firms outside the capital and KMAP is searching for ways to mobilize counselors beyond Nairobi.

4. The firms assisted are distributed in a wide range of sectors, including services (hair dressing), agro-processing and light manufacturing.

5. KMAP charges a KSh 400 registration fee which entitles the recipient to 8 counseling sessions. The counselors go out and evaluate the needs of the firm and tailor the counseling to those areas. Self-sustainability of the program is an issue and KMAP is asking the members for an annual membership fee and will be increasing the fees charged for consulting services.

6. Credit is perceived as a basic constraint for firms of the size helped by KMAP. These firms are particularly hurt by collateral requirements. One possibility may be to institutionalize supplier credit. This is already a

major mover of small business credit in the country. But by being limited to supplier credit, firms are constrained in their ability to move their operations into other locations or into other activities, to the extent that they then need to develop a whole new set of supplier contacts.

7. Women business owners are constrained because they need to present collateral but women in Kenya do not generally inherit land or assets.

8. Need to look at the possibility of using other non-bank financial institutions. At this time all credit programs are going through the commercial banks. Are there alternatives?

9. GOK seems to pay a lot of lip service to privatization, but little is actually done about it.

10. There is little information about the number and type of training institutions around the country. Which institutions are doing training of what type? Where in the country. How many training facilities are available outside of Nairobi?

Meeting with Mr. Mike McWherter 2/16/89
Participants: San Martin, Jantio, Wise Greenberg

1. It is difficult to attract foreign investment because the domestic market is small. Though the GOK says that it is interested in attracting foreign exchange, in reality it does little to promote it. The IPC is ineffective and there are other impediments such as the policies on repatriation of dividends. These policies also make it difficult to retain whatever foreign investment is already in the country.

2. There is a need to get business to dialogue more regularly with GOK. Talk by GOK about nationalizing the successful businesses makes firms jittery.

3. Present GOK policies have hurt the development of the stock exchange. For example, ALICO and Firestone have opted not to use the stock exchange to raise capital in part because they do not wish to end up with a lot of shillings. It is also much easier to raise capital by selling issues directly to individuals who have accounts outside the country. In addition, the operations of the Capital Issues Committee which now controls the exchange and sets the price of issues are not transparent. The Committee, which consists of three

people, decides on the price of issues in an _ad hoc_ manner. They set the prices low so as to increase the participation of the smaller investor, the indigenous Kenyan. But these prices are too low and as a result there have been few new issues in the last 12 years. The World Bank wants to abolish this Committee and has included this goal as a condition to its loans.

3. In response to this, the GOK is moving forward into establishing a new regulatory body to oversee capital markets: the Capital Market Development Authority (CMDA). This Authority will be composed of a number of important and respected individuals in GOK and private sector, including the Attorney General, the Governor of the Central Bank, as well as commercial bank representatives. This Authority will serve as interim committee and write the enabling legislation to establish a permanent authority to oversee capital markets in Kenya. This new authority will follow well defined guidelines for establishing the price of issues.

4. Indigenous Kenyans have traditionally gone straight to the Civil Service after completing their higher education. Thus they have generally been less oriented towards the private sector. This in part explains the relative lack of development among indigenous businesses compared to business and entrepreneurial development in other communities such as the Asians. This is starting to change as opportunities in the Civil Service diminish. GOK traditionally guaranteed all university graduates a job, but is no longer doing so. The new graduates are forced to look for opportunities outside the public sector.

5. The KNCCI is the representative of indigenous businesses in the country. They have over 4,000 members, of which more than 3,000 are indigenous Kenyans. It has 43 branches in the country, though many of these are moribund. Its reach makes it a particularly attractive implementing agent for private sector outreach programs. But for many years the KNCCI was thought to be too politicized and ineffective. This has started to change. USAID has provide some technical assistance to improve its organizational efficiency (computerizing and establishing a management information system). The KNCCI survives because importers and exporters need to have stamps provided by this organization, and because of the membership fees, but they need to expand their membership and assess their fee structure.

6. The tourism sector is highly competitive. There is no association of tourist industry firms, nor is there an

exporter association nor an agribusiness association.

Meeting with Mr. Mark Renzi 2/16/89
Participants: San Martin, Jantio, Greenberg, Wise

1. The KNCCI is the only national business association. Its diversity and size means it as the potential as a useful implementing agent for private sector development activities. Its membership includes the top MNC's as well as the small scale enterprises; its leadership is visible. But they have not been able to provide services, except for the stamps provide to importers and exporters and its branches have atrophied. USAID is providing an expert from the US Chamber of Commerce to help them improve internal management. USAID is the only donor involved with the KNCCI.

2. The Kenya Women's Finance Trust, financed by the Women's Bank in New York could be another potentially useful implementing agent for private enterprise support activities. It has placed a very small number of loans to help women entrepreneurs (only 30) because its program is administratively intensive.

3. Kenya Industrial Estates is majority owned by GOK. It provides loans and training for SSE's and builds factory shells for its loan recipients. It charges nothing for the shells. Firms with fewer than 10 employees qualify. It is not sustainable because it charges nothing for its services and because there is the perception that since it is a GOK program there is no need to repay the loan.

4. SEFCO, financed mostly by the FRG, is a group loan scheme. The groups consists of 15-20 individuals, who agree to put up 25% of their own assets. SEFCO puts up the rest. If any in the group default they all share the risk, so there is real social pressure to keep paying. They too have high administrative costs.

5. It makes better sense to finance established business than to finance businesses which are starting up. Presumably the former have some experience and interest in the firm. The default rate is usually lower and the amount learned from and use they make of from training will usually be higher.

Meeting with Ms. Anniel Lutton -- Projects Office 23/2/89
Participants: Jantio, Murphy, Greenberg

1. The total amount obligated to the CIP program since 1984 has been US$ 46.5 million.

2. Seven banks participate in this program. Price Waterhouse monitors the program

3. There are no preferences or restrictions placed on CIP in Kenya as they are in Tanzania (where CIP is used only for road rehabilitation) or Mauritius (where CIP is sued only for agricultural machinery). CIP in Kenya is only subject to GOK restrictions on import licensing.

Meeting with Mr. Michael Lippe and Mr. J. Kolker -- Regional Housing and Urban Development Office 2/3/89
Participants: Jantio

1. RHUDO plays an important role in USAID; it has a portfolio of US$ 44 million in a housing guarantee program.

2. RHUDO is not part of the Africa Bureau, but depends on the PRE Bureau. It covers a regional area just as REDSO. But in any one country, RHUDO likes to consider itself a technical office, just like the USAID Projects Office. Any project needs to be approved by the Mission and the Africa Bureau. Thus it is technically part of USAID.

3. It is important that RHUDO participate in the CDSS and Mission strategy. Its objectives and goals are the same as those general goals and objectives stated by the Mission in its recent Action Plan (to improve the role and efficiency of the private sector, improve agricultural production, decrease population growth).

4. By the year 2000, urban Kenya will represent about 30 percent of the total population in the country. This has implications for Mission strategy. In addition, employment will be Kenya's chief challenge. Most jobs will be located in towns and urban areas.

5. RHUDO's key programs:

- o Private sector housing project: US$ 30 million housing guarantee program (the largest such program after the one funded by the World Bank);
- o Small towns: housing and infrastructure for 26 towns, as well as the provision of training for the local municipality in dealing with the private sector.

OTHER INTERVIEWS

Meeting with Mr. Fred O'Regan--Kenya Rural Enterprise Program
2/17/89
Participants: Jantio, San Martin, Greenberg

1. Commercial banks have traditionally been unable to deal with "uncollaterized" clients. The REP, through either of two cooperative agreements which exist with USAID, provide grants to NGO's, community organizations and small business associations directly to provide technical assistance to small scale enterprises. It also provides credit through commercial banks. The program also tries to enhance leadership and institutional capabilities in these organizations which provide assistance to SSE's. It does this by teaching organizations how to recruit better qualified people, training them in appraisals and generally improving management skills. The grants run from US$ 5,000 to several hundred thousands of dollars. Repayment rates for the loans made are 90%. The average firm receiving credit employs 5 persons and has average assets of about KSh 200,000, though this varies by sector.

2. The REP program has developed an area opportunity assessment package that enables it to identify the types of projects which are feasible given the technical skills in the area, the local market for the output and the availability of inputs.

3. The arid areas offer particularly good prospect for SSE growth. In the arid areas there are good prospects for the development of hides and skins enterprises. In general the on-farm production projects have unlimited potential, provided there is careful assessment of the local capability to undertake such operations, including the appropriateness of the technology and the market potential, both locally and beyond.

4. Commercial banks are not a panacea for the credit problem. Commercial banks are difficult to work with and have been very slow on SSE lending. They have refused to go under a 1:1.5 guarantee for the loans. This type of guarantee ties up a lot of USAID cash, though they have been able to recapitalize loan programs through reflows.

5. He would like to see as an alternative to commercial banks the establishment of a "people's bank" specialized on non-collateral credit, though he understands that establishing such an institution would be very difficult.

6. There is a need to increase the coordination of NGO's assisting the SSE's. At this time there is a great proliferation of NGO's with soft donor money, who may be doing more harm than good. It gets tiresome to pick up the pieces of programs which have failed because of ill-planned donor assistance--e.g. assistance for programs which lend at less than commercial rates.

7. One way to decrease the administrative costs of handling SSE credit and make it more attractive for banks to invest is to package group loans. But "group loans" should not include group enterprises, since collective management is very problematic. It is important that the firm owner see a direct linkage between individual production and effort and his earnings.

8. NGO's normally do not have a banking mentality. They are not normally oriented towards income generation.

9. The GOK is generally very hesitant to let things loose and let the private sector flourish freely. On paper their strategy towards private sector development seem to be on target. But GOK actions do not always follow their words. The GOK seems hesitant to support institutional structures that would allow the private sector to develop. An example is the issue of interest rates. Commercial banks will never find it attractive to lend to SSE's at the present maximum of 15% -- a 20% rate would make it far more attractive. Another problem with GOK policy is the fact that all projects need to be OK'd by the district development commission and this can sometime take too long to process.

10. NGO's have been reluctant to have any of their SSE assistance grow too much, because they fear becoming too visible. The relations between NGO's, specially the great number which are church-affiliated, and GOK have been sensitive lately due to the Church's criticism of the GOK human rights policies.

11. There is no shortage of informal lending available, but it is thought that most of these funds are limited to personal uses such as funerals rather than for business purposes. There is a need to finance economic anthropological studies to confirm this and to investigate the sources and uses of informal lending.

12. There are other organizations besides NGO's that could be potentially very useful for SSE development, though there are not too many that are well run at this time.

13. The Kenyan Small Traders Society is an example of such a type of organization. It has over 4000 members in 10 branches located in all the major towns. The KSTS already operates its own credit scheme using the members savings. Members are entitled to credit based on the amount they have put into savings on a ratio of 3:1. It was started by a group of small entrepreneurs. They are presently working with the Kenya Institute of Management to improve their internal operations, streamlining their internal accounting systems. But KIM's approach is too "hands on" and in the end may end up hurting the viability of the organization. KIM wants to use too many consultants and may create a massive dependency. It would be preferable to simply hire a general manager with experience funded by donor money and let this person decide what sort of assistance is needed at what time.

13. The Confederation of Women's Organizations could also be potentially useful. The group is presently working with groups of women entrepreneurs making baskets and marketing them through a central organization. They are even supplying these baskets for export. Their main problem are transportation of the finished goods to the market. USAID has been assisting by financing donkey carts.

14. There is a lot of pressure to assist the informal sector because this is believed to be an effective means of generating more employment opportunities. SSE are believed to be very labor intensive. But it is unclear whether or not the largest constraint faced by SSEs is credit. Perhaps a larger constraint is the lack of marketing opportunities. Much of the informal sector operates in areas where the cash economy is fairly recent. The communities and the clientele for these firms lack purchasing power. Hence it is important to study well the buying habits of the lower income groups and assess the market potential of the goods produced by the SSEs.

15. The Kenya Women's Finance Trust has been, at least on paper, fairly successful extending loans to women entrepreneurs. They have a repayment rate of over 95%. But the central organization is a disaster. There has been a lot of political infighting, some along ethnic lines. There is no empathy between the Board and the clientele. As a result of its administrative inefficiencies, the organization has begun eating into its reflows.

16. There is a level of firm that programs such as RPE do not reach and the commercial banks will not touch. This type of firm can be greatly aided by the development of equity markets. REP is looking into the viability of establishing some equity markets for the smaller indigenous firms (since the Asian firms already have their own credit and equity network).

Meeting with Ms. Judy Beckwith and Mr. Mwenda Thiribi --
Deloitte Haskins+Sells 2/17/89
Participants: Jantio, San Martin

1. Commercial banks in Kenya do not provide long-term lending. The maximum period is usually 24 months. Select clients can sometimes get loans for up to 4 years. The only institutions providing long-term loans were the development banks, but they made the clients absorb the foreign exchange risk since they only had donor money. This was fine as long as the shilling maintained its value, but became very problematic as the currency began to devaluate in 1981. Many businesses were hurt as they saw their debt increase due to these devaluations. All development banks are wholly or partly owned by the GOK.

2. Commercial banks have an excellent network of branches around the country. No other type of organization or association has the same type of outreach capability. RPE tries to institutionalize the idea of long-term lending in commercial banks in order to be able to use their branches to reach entrepreneurs outside the main urban areas.

3. The program administered by DH+S goes beyond the provision of credit (a total of US$24 mn, which the banks are to match at one shilling for every 2 of assistance). Since the major constraint that they found was the lack of a long-term lending mentality in the banking community, much of the effort and administrative costs have gone into training bankers to lend long-term, to do feasibility studies, and to generally increase their capabilities to handle long-term lending. As of this date they have trained 150 bank managers. DH+S also provides technical (mostly in the area of production technology and operations) and management assistance to those loan recipients identified by the banks. This assistance is provided through their subcontractors, IESC and Technoserve. DH+S has also provided technical assistance and training to the Central Bank who is implementing this

program for the Ministry of Finance. The TA and training enhances the CB's project monitoring capabilities.

4. So far 47 loans have been made ranging from KSh 92,000 to KSh 6 mn.

5. The major constraints the program has faced:

   - The interest rate ceiling for RPE is 13%. The regular commercial rate is 15%. Thus the program may attract the wrong kind of applicant. The incentive exists to borrow the money and put it in a commercial bank earning 15% rather than putting it to productive purposes, though DH+S maintains that it has been able to insure that this does not occur thus far.

   - Banks are not finding the program profitable. DH+S has estimated that the participating banks are getting a spread of 4.29% on the program, whereas they can get a spread of 9% by putting their money to other uses, with a higher rate and lower administrative costs.

   - The IMF ceiling on credit growth. The IMF makes no distinctions when it sets the ceiling between credit used for consumption and credit for commercial purposes, and neither does GOK. Given the above, banks have no particular incentive to lend for RPE. Thus many applicants who have been told their loans were approved are now being told that there is no money to make the loans.

   - The criteria for qualifying as a recipient are difficult to implement and may not always be realistic. The criteria that the cost of investment to job created must be KSh 80,000 does not make sense for many types of businesses which have a potential for generating a lot of employment.

   - Some of the paperwork requirement imposed by the donor is not clearly understood and adds to the administrative burden for the banks (such as procurement procedures), thus further reducing the incentive to participate in the program.

6. Other donors have been looking into the possibility of starting programs similar to RPE, with an emphasis on creating long-term credit markets -- the World Bank (with an emphasis on on-farm production) and the ODA.

7. Besides access to long-term credit, other major constraints affecting enterprise development in Kenya are:

- The size of the market (the collapse of the regional market in east Africa created excess capacity in local firms; there are no longer the same economies of scale for many manufacturing concerns);
- The lack of technical know-how;
- The basic inward looking perspective of many businessmen (markets in Kenya have been protected for many years with import substituting policies and it is only recently that attention has been paid to export potential and the need to be competitive abroad);
- High collateral requirements.

Meeting with Mr. Bruce Bouchard -- Kenya Equity Management
2/17/89
Participants: San Martin, Jantio

1. The investor community in Kenya is extremely conservative. Most of the investment is in real estate and Treasury bills, both of which provide very good returns at virtually no risk (or zero risk in the case of the T-bills). T-bills are particularly attractive because they yield 16-17% .

2. The capital market in Kenya has not been very active. The stock exchange has been moribund, though there have been two new issues recently which were oversubscribed quickly (due in large part to the artificially low price set on the issues). But generally the stock exchange is not viewed as the place to raise capital.

3. The idea of venture capital and equity investment is poorly understood in Kenya. Investors want to know what they will get on a current basis; they are really only concerned with the dividend and not with the potential increase in the value of the company several years down the road. Even if the value of the company triples, what matters to investors is their ability to realize this quickly.

4. There is a general nervousness about the political environment, which makes investors short-term oriented. Recent GOK or KANU pronouncements regarding

nationalization of successful enterprises have made the business community even more jittery.

5. KEM will be making investments only in established businesses operating in low risk sectors. This means that agriculture production and firms operating in sectors where there are price controls or where they compete with parastatals will not be considered viable.

6. KEM is planning to invest in a bakery, restaurant, metal fabrication factory, a small agro-processing firm producing for the export market, a paint manufacturer. Some of these operate outside Nairobi.

7. KEM's equity position ranges from 15 to 48% and it can provide one and a half times that in debt.

8. To make the investment attractive KEM structures its participation in a way that insures them some control over the management of the company and a floor on the yield realized. KEM negotiates an agreement up front for selling its share after some period of time at an established base selling price. The pre-established selling base price is set through a formula that will insure that it will at least appreciate at an annual compounded rate equal to the yield for T-bills. KEM may also require that the company in which it is investing set aside some percentage of its pre-tax earnings into a fund, so that if the post tax dividends are lower than the target yield (25%), money can be taken out of the fund to compensate investors for the difference.

9. KEM has had problem selling its services because businesses are generally very conservative and closely held, so that people are not keen to share control of the company. It has also been difficult to find companies that are well managed.

10. The textile industry has a lot of growth potential, particularly for export. Africa is the only part of the world which has no import quota restrictions in the US and the textile sector in Kenya is well developed. To succeed it needs to be able to import its raw material duty free.

11. Agro-processing also seems to have good growth potential, but here there are more unknowns to contend with, such as insuring a steady supply of inputs. Generally anything in agriculture in Kenya is perceived as high risk.

12. The policy environment makes it difficult for firms to operate. The tax system, the stock exchange and capital

market regulations, repatriation laws, foreign exchange controls, the credit ceilings, are all major disincentives to investment. But the business environment may improve over the next months since the GOK seems more serious about accepting a number of policy changes imposed by donors.

Meeting with Mr. Leakey, Prestige Travel 2/20/89
Participants: Greenberg, San Martin, Jantio, Murphy

1. Mr. Leakey is in charge of the hotel side of the business rather than the tour operations side.

2. Hotels are in short supply in some areas and operating far below capacity in others. Parks such as Masai Mara are well developed with over 1,200 hotel rooms in an area of 700 sq.mi. But smaller parks have less than 100 rooms available. Developing some areas is difficult because they are not on the "tour operator circuit." It becomes a chicken and egg problem: areas are not developed because they are not on the "circuit" but they will never get on the circuit because their infrastructure is underdeveloped. There are 43 national parks in Kenya but only 10 are really used extensively.

3. The main problem faced by the tourist industry is the lack of marketing power. Marketing the country abroad is perceived as the role of the GOK and not of the private enterprise sector. But GOK lacks the resources to mount effective campaigns abroad.

4. The US market is extremely difficult to reach. There are over 12,000 travel agencies in the US and there is no one central place or medium through which to reach most of them effectively. Thus Kenya must rely on the tour operators to do the marketing. US tourists are mostly interested in the parks, while European tourists come seeking the coast.

5. GOK has shown a lot of interest in developing Western Kenya, but this section is not attractive, in Leaky's opinion. It is too remote and the infrastructure (roads and lodgings) is very poor.

6. Shifters and poachers are a problem in Samburu. Some places such as the Mt. Kenya Safari Club, have profited from the problems in Tanzania and Uganda.

7. The GOK lead in marketing Kenya is miserable. Promotion is the responsibility of the KTDC, but it has not had a

new project in years. The GOK does a poor job maintaining the various lodges and managing them. KTDC owns majority of the share (80-90%) in some 17 hotels around the country. The Ministry of Tourism is also supposed to help promote, but it spends 83% of its budget on staff salaries and has little left over for any promotion work. Moreover some of those initiatives they do undertake are ill-planned, such as the trade promotion planned in the Middle East (Ridyah and Abu Dabi). The Ministry did not consult with the industry before undertaking this project and there is little support for this initiative in the private sector.

8. There are approximately 4,000 beds available in the coast and another 9,000 in Nairobi. But the vast majority of these beds are in the hands of four large tour operators (United Touring Co, Block are the largest ones). Most tour operators in the country have gotten in the hotel business as well.

9. There are 3 associations in the industry which are considered fairly effective: Kenya Association of Tour Operators (KATO), Hotel Keepers Association, and the Association of Travel Agents.

10. KATO has about 400 members (there are approximately 700 registered tour operators in the country). It includes the largest 100 and the 15 who really do the lion's share of the business. The head of KATO is Mr. Sindiyo, an ex-Chief Game Warden. KATO's main role is that of lobbying GOK to insure that policies do not hurt the tourist trade (such as a recent policy to require licensing all video recording activity; KATO convinced GOK to rescind this policy). Other GOK policies recently adopted which adversely affect the trade are the increases in the entry fees into some parks.

11. The Hotel Keepers Association is respected by the GOK as well. GOK regularly consults with the organization and recently it was granted representation on the board of the hotelier school.

12. The Association of Travel Agents is concerned mainly with outbound traffic and is not really a part of the local tourist industry.

13. Leakey does not think that any of these above organizations have the finances to pick up the promotion activities the GOK should be undertaking.

14. The GOK has not been able to capitalize on the opportunity to build up the conference trade made possible by the new Kenyatta Convention Center. It hosted about 40 conferences last year, and GOK was

happy. But the potential is much greater. Kenya has a well developed infrastructure and natural resources; it could have three times as many conferences per year.

15. The EEC has provided money to help the GOK with tourist promotion, but little of this money has been seen. USAID and other donors could be of most help by providing assistance in marketing and promotion.

16. The participation of indigenous Kenyans in the tourist trade has been very low. There are no successful indigenous Kenyans in the tour industry (one of the more successful outfits is HAT run by Mr. Peter Muiruri). They lack the contacts abroad and the capital at home. The GOK has at times talked of "indigenizing" the industry.

17. Labor is not a constraint at any level. The hotel schools provide good management and technical training. The Kenyan labor force is disciplined.

18. The state of the roads is somewhat of a constraint, but not very serious since many areas can be reached through the air. An increase in the number of charters available and/or the routes flown by Kenya Airways would help open the remote areas even more. There is an Air Operator Association, but there is no connection between it and KATO, though such linkages would be helpful.

19. There is a market for trophy hunting. Bird shooting has been reintroduced in Kenya recently; there is talk in GOK of opening up the country to game hunting again. This could be done on private land, without having to operate in GOK parks. Farmers would be happy to get help in controlling some of the wildlife.

20. Financing is not a problem for the industry. There is plenty of money to develop hotels, provided that the right location is available. The problem is promotion.

Meeting with Mr. Chris Malavu, Business Consultant and insurance broker 4M Company 2/20/89
Participants: San Martin, Jantio, Murphy, Greenberg

1. GOK policies which affect investment and particularly foreign investment in Kenya:

   a. GOK quotas for expatriate labor. These quotas are also non-transferable, so that if a company brings in an expat and he/she does not work out, the firm needs to reapply for another license if it wishes to bring another expat as replacement.

   b. The income and corporate tax rates are very high. Dividends are also taxed at both the corporate level and as individual income.

   c. Repatriation of dividends is very slow, though the Investment Promotion Act protects the investor's right to remit dividends.

2. Kenya could potentially benefit from the problems in Lebanon and South Africa, but has been unable to attract the capital leaving these countries. Botswana and Zimbabwe have been far more successful at this.

3. KAM is a very effective association. The IPC could be extremely useful, but has been slow getting of the ground. It lacks authority to decide on behalf of the various ministries. There is now an Ministerial Committee to liaise with KAM on matters of policy affecting the private sector.

4. Lack of computer and accountancy skills are constraints to private enterprise development.

5. Finance is a major constraint, specially due to GOK caps on lending levels and on the growth of credit.

6. Asian businesses have no problem accessing collateral. The indigenous Kenyan have the skills but they lack the collateral. Most of Kenyans have property and assets but it is in the form of land. Commercial banks are reluctant to accept land as collateral because the law requires the approval of the entire family before land can be sold or transferred. This is very time consuming. The indigenous Kenyan also lacks information on alternative sources of credit.

7. Marketing and the size of the market (since the collapse of the regional market in east Africa) is also a constraint to enterprise development. The collapse of the regional market also led to underutilized capacity in many of the larger in Kenyan enterprises, which had been set up to service larger markets. The PTA could alleviate this, but it will take time.

8. Joint ventures between EEC firms with the capital and the contacts abroad could be very profitable, particularly using a mechanism such as the EPZs. A manufacturing in bond operation has been established in Mombasa, but the red tape has slowed its development.

9. Wood products, textiles, steel/metal products and rubber are good bets, in terms of potential for fast growth as exports. Kenya has the capacity to manufacture all these goods efficiently and labor costs are low, but the firms lack market contacts abroad.

10. Indigenous Kenyan entrepreneurs will not develop unless the GOK sets aside certain sectors for them and not allow Asians to come in. Asians do not compete fairly. They will undercut a Kenyan competitor to drive him off the market. This is why GOK has forbid distribution by manufacturers, so as to create opportunities for indigenous Kenyan. But the Asian community has managed to undermine the intended effect of this initiative by requiring that the indigenous Kenyan distributor pay for the products up front. No such requirements are made of the Asian distributors.

11. Of all the Asian communities, the Ismailis (Aga Khan) are the most forward looking and willing to work with indigenous Kenyan partners. But even this group is reluctant to allow African Kenyan full participation in running the business. The GOK needs to push the idea of joint ventures with indigenous Kenyans, and not just via parastatals.

12. Asians do not reinvest much of their capital in the country; they take much of it out of Kenya.

Meeting with Mr. Meruani -- Diamond Trust Company 20/2/89
Participants: Murphy, Jantio

1. IFC owns 10.8 percent of the shares.

2. Mr. Meruani believes that the situation for private enterprise in kenya is actually quite favorable. There are no real constraints to growth.

3. Five years ago three financial institutions collapsed. More government regulation was needed to avoid such a crisis. But the regulations in place now are not really adequate. They tend to be too cumbersome and limit the legitimate activities of financial institutions. In particular, since no fees are allowed, interest spreads are 100 percent of the income of financial institutions. But this income is restricted by the credit ceiling system. The financial institutions cannot make any money, since the rate they can charge their best customer is lower than the cost of funds:

Maximum rate which can charge:	18%
Cost of funds:	
operating cost for best customer:	3%
interest paid for 6 month deposit:	15%
Premium on bad debt:	1%
Profit:	1%
Cost of funds for best customer:	20%

This difference is amplified for the higher risk customers.

4. Credit to micro enterprises is a good idea. The big challenge is coping with the high administrative costs. The cost structure of the Jua Kali program is estimated as follows:

Operating costs:	10%
Interest for 6 month deposit:	15%
Premium on bad debt:	1%
Profit:	1%
Cost of funds for Jua Kali customer:	27%

In addition, the break even point at which banks make money on a loan is for levels above KSh 1 million. Most Jua Kali loans are for an average of KSh 15,000.

5. Contrary to commercial banks, which have a strong and active set of associations, there are no such associations to represent the interests and provide services to non bank financial institutions such as his. A strong industry association is needed in order to have more effective dialogue with the GOK.

Meeting with Mr. Kariuki, Chairman, Nairobi Stock Exchange
2/20/89
Participants: Greenberg, San Martin, Jantio, Murphy

1. The Nairobi Stock Exchange (NSE) is based on the London model, and it originally catered just to the community of UK companies set in the region. Shares were traded informally until 1954 when the institution was formalized. Indigenous Kenyans were not allowed to buy shares until 1963.

2. The NSE was international until 1965. Shares in the London, New York stock exchanges were traded freely in the NSE. This was only possible as long as there were no foreign exchange controls. The 1965 Foreign Exchange Control Act effectively ended international trading since all such purchases in foreign currency needed to receive Central Bank clearance.

3. Another further contraction of the activity in the NSE occurred when businesses operating in Tanzania and Uganda were nationalized without compensation by these governments (in the 1970's). Nairobi was the regional headquarters of most of the nationalized MNC's in these countries. In 1977 the GOK removed Tanzania and Uganda companies from the stock exchange and the NSE effectively became nationally oriented.

4. Further contraction of activity was a result of the introduction of the capital gains tax in 1975. All investors in Kenya were subject to a tax of over 35%. This was reduced to 15% in 1981 and in 1985 suspended. This suspension has helped revitalize the NSE. There were no public offerings from 1975 to 1984, but in 1986 Barclays offered shares, in 1987 the KFC (a parastatal) sold 20% of its equity to the public and in 1988 there were three issues.

5. In 1989 there are 56 companies quoted in the NSE and 7 licensed stockbrokers. Mr. Kariuki believes that there is also simply not enough activity to support any more brokers. He estimates that each broker undertakes an average of about 3 transactions per day.

6. The GOK does not yet understand that the NSE is potentially a valuable tool of policy -- a vehicle for privatizing parastatals, increasing the access of the average Kenyan to equity participation and for teaching the African Kenyan entrepreneurship. The capital raised by the GOK through the public sale of parastatal shares could then be reinvested in development activities. An increasing number of parliamentarians (MP's) are beginning to understand the advantages of using the NSE as a development mechanism.

7. There are constraints to the efficient operation of the NSE, but these are not insurmountable. Moreover, with the KFC public offering, GOK has shown a greater understanding of the mechanism of the exchange as a tool for revitalizing the business community and seems less willing to interfere with its operations. Still the GOK would rather privatize the unprofitable parastatals and keep control of the profitable ones.

8. A major problem in the NSE is that the demand greatly exceeds the supply; prices in the secondary market are high an yields are low.

9. There are many organizations around with excess liquidity interested in alternative investment opportunities. Their involvement in the NSE could greatly revitalize the equity markets. Farmer groups, which until recently invested their savings on land, have been banned from further land acquisitions and are looking for investment opportunities. The growth of the cooperative movement has been phenomenal in recent years, and these too are looking for investment opportunities. They are focusing on real estate, but they could very well invest in the NSE. The problem is educating these groups as to what the NSE means and the opportunities it offers for returns.

10. Between 25-30% of the capital invested in the NSE comes from indigenous Kenyans. Thirty to 40% comes from the Asians and the remainder is foreign capital.

11. The NSE lacks the resources to disseminate information about public offerings and capital market activity, particularly in the more rural areas. There is capital out in these communities, but the inhabitants are often unaware of the investment opportunities in the NSE. Moreover, the population generally knows very little about secondary market activity. They are only aware of primary offerings when they are published in the press. In addition, people in Kenya do not understand what it means to take risks and to have equity. When the average Kenyan invests, he wants something tangible in return.

12. Secondary market activity has generally been slow because it is far less profitable than the primary market, where the price of issues is kept artificially low by the Capital Issues Committee. The CMDA also needs to address issues pertaining to taxes on dividends and insist on a fair treatment of all companies participating in the NSE.

13. The GOK seems genuinely committed to the Capital Markets Development Authority (CMDA). It should provide the transparency the system needs to work more efficiently and foster wider participation. The system could also gain increasing transparency through the establishment of a computer network which would disseminate continuously information on the prices of all issues.

14. Mr. Kariuki believes that indigenous Kenyan participation in the economy could be promoted by creating mutual funds and using these to buy mixed basket of stocks.

15. Mr. Kariuki is generally reluctant to handle issues of Asian businesses. He believes the Asians are not up-front about their operations. They keep various sets of books and are reluctant to disclose the true figures. They are reluctant to submit themselves to an audit by a reputable accounting firm prior to a public offering. Their accounting standards are very lax.

16. Accounting standards in Kenya are generally very high and there are a number of top-notch accounting firms. Getting a reliable audit and certification prior to a public issue is not a problem.

17. NSE members could greatly profit from additional exposure of how other capital markets work in other LDC's. The experience in the US, while interesting, is not very relevant to the Kenyan environment; it is too sophisticated, although the OTC (over the counter)

market in the US does have some applicability. Of greater interest are the markets in Asia and perhaps in Mexico and Brazil.

Meeting with Mr. Peter Muiruri -- Hotel and Adventure Travel, Ltd. (HAT), 2/21/89
Participants: San Martin

1. GOK rarely takes into account the needs or interests of the private sector when it plans its promotion activities. For example, in planning attendance to a trade show in Miami in mid 1989, it failed to consult the companies regarding interest in attending or the size of the locale necessary. Usually it rents too little space and the participating companies end up having to rotate their displays to accommodate everyone, thereby decreasing the visibility of each participant.

2. GOK will usually pay 40% of the total costs of renting space at the trade shows and participating companies are expected to put up the remainder, plus all travel expenses. As a result, participation in such a show will cost about KSh 50-75,000. This is very steep considering the limited exposure one gets. He prefers to forego these GOK-sponsored shows and contact firms directly in the markets of interest.

3. The market of interest for the indigenous Kenyan tour operators is the US. The EEC is extremely difficult to penetrate because it is controlled by the large tour operators who have well developed contacts with tour wholesalers in the continent. Moreover the British tour wholesalers prefer to deal only with British owned firms, believing the African Kenyan to be unreliable. British operators prefer to use UTC, Flamingo, Abercrombie and other such large outfits in Kenya. US travel agents and tour operators have no set preferences and are much more willing to negotiate with less established outfits such as his.

4. But the US market is difficult to penetrate. Different regions have different actors and it takes time to develop contacts in any one region.

5. The US market is particularly profitable for Kenya. Though US is third in terms of tourist arrivals per year, US tourists spend more per capita than any other group.

6. Mr. Muiruri developed contacts with individuals and travel agencies in the US while he served as Tourism Officer for the GOK in New York and Los Angeles. He would like to expand his network of contacts but lacks the capital to do so. He and the other 5 or 6 larger African Kenyan tour operators are considering the possibility of pooling resources to develop promotional materials (brochures) and promote themselves collectively in the US.

7. The Ministry of Tourism Officers abroad lack the resources to do any promotion of Kenya. They only react to inquiries, and do so slowly. The MOT spends over 80% of its budget on staff salaries and allowances for its staff abroad, and thus there is little left for any marketing.

8. It is difficult for the private sector to undertake promotion activities collectively. KATO has talked about doing this, but the organization's membership is very diverse and could not settle on one type of approach or even on the markets in which it wished to focus.

9. Several years ago, Mr. Muiruri formed the Kenya Chapter of the American Society of Travel Agents (ASTA). All Kenya firms interested in the US market belonged to this association. They organized a series of promotional tours for US travel agents through the US ASTA and the African Travel Association (ATA -- another US-based travel agents association). But then the GOK said it would control all such promotion tours in the country, and the whole thing quickly went downhill. The Kenya Chapter of ASTA is now moribund, and no more tours of US travel agents in Kenya have been organized.

10. Besides the ill-conceived GOK promotion policies and activities, there are a number of other key constraints facing the small operators in the industry:

a. Poaching. The US tourist is only interested in Safaris, in contrast to the European which prefers to vacation on the coastal resorts. The poaching problem and the ensuing publicity provoked a rash of cancellations of US tours last year, and his business is only starting to pick up again slowly. GOK should increase the entrance fees to the national parks. The fees are too low now; increasing them would not greatly add to the total cost of the tour and enhance the GOK capacity to maintain the parks and protect the wildlife.

b. Lack of airseats from the US. GOK sets quotas for airseats by country, in order to protect the market for

Kenya Airways. Pan American would like to increase the number of weekly flights from the US but Kenya Airways is blocking the expansion. Kenya Airways could itself help alleviate the situation by running charters from the US. But the airline says it is not interested in charters because they offer a very small margin. Mr. Kariuki contends that the small margin from the charter would in the end be more than offset by the higher spending in country of US tourists.

c. Foreign exchange controls. Mr. Muiruri would like to increase his number of promotion visits to the US. But to do so he needs foreign exchange. The GOK only allows him to buy a total of US$100 for every day of his stay in the US. This amount is supposed to cover hotel, travel within the US and food, plus any other promotional expense there may be in the US. This is inadequate and effectively prohibits the small operator from cultivating his contacts abroad.

d. Duties on minivans and insurance coverage. These vehicles are crucial for the business but they are taxed as luxury goods and they are placed in the same risk categories as the matutos. As a result such a vehicle costs (including duties and insurance) over KSh 600,000. The smaller operator cannot afford to buy these vehicles and must work with older ones, prone to breakdowns.

11. Besides his operation, other successful indigenous Kenyan tour operators are: Mjambi Tours, Aardvark Safaris, Kenya Mystery Tours, Boni Safaris, Airland Travel.

Meeting with Mr. Silas Ita -- Kenya Association of Manufacturers (KAM) 2/21/89
Participants: Murphy, San Martin, Greenberg

1. KAM acts essentially as a lobbying group for the business community, though it provides some other business support services. KAM also provides consulting services. It has a number of experts on their staff including economists, and engineers. KAM is hoping to expand this permanent consulting staff. It also utilizes the resources and expertise from other member firms. The association also organizes workshops on technical issues and provides secretarial services for the members.

2. Mr. Ita believes that the association enjoys the support and respect from the GOK. It is consulted regularly and asked by GOK to comment on all policies which affect the private sector. According to Mr. Ita, GOK accepts about 75% of the comments and suggestions made by KAM on every policy issue.

3. At the ministerial level, all the way to the deputy PS level, relations between GOK and KAM are very good. Consultation takes place frequently, both formally and informally. This is not the case with lower level officials. Lower level bureaucratic officials, those actually in charge of implementing the policies of government, are less sensitive to the needs and concerns of private enterprise. There is a need to educate lower level officials concerning GOK private sector policy. KAM would like to be able to organize some seminars for these officials. The seminars would cover GOK policy and intent vis a vis the private sector, and in particular touch issues pertaining to the effect of red tape and bureaucratic delays on business operations.

4. KAM membership has grown significantly over the last few years. It began in 1959 with some 100 firms and stayed small for a number of years. Today it has 600 members, covering all sectors of the economy. Its members include all the largest manufacturing establishments, virtually all the MNC's (including 2-3 from Japan, all from the EEC, US and Indian) and a number of parastatals (including all the parastatals in the food industry). The diversity of the membership allows KAM to tap into a wide intelligence network, and get access to the most recent and reliable information on international markets, foreign trade policy changes,

and inside information on GOK policy actions from civil servants who have business interests or represent the parastatals.

5. KAM membership includes only 20 wholly African-owned firms and another 100 in which African Kenyans have some participation. Another 250-300 firms are Asian owned; 125-150 are MNC's and 125-150 are parastatals. Few of the parastatals are wholly GOK owned (power and sugar are the exceptions).

6. KAM just restructured its membership fees. These range from KSh 3,000 to KSh 8,000, depending on the firm's turnover. Over three quarters of their budget comes from membership fees (out of a total budget of KSh 2.8 million, KSh 2.2 comes from member subscription; the remainder comes from fees charged for secretarial services, revenue from functions and seminars and dividends from their investments). USAID funds help pay for some of the association's expert staff and for specific studies, such as a study on the impact of price controls and workshops and seminars (such as one workshop on packaging held recently).

7. The British High Commissioner has expressed interest in assisting KAM in creating more effective linkages between the large and the smaller firms. In particular KAM is exploring with the EEC the possibility of surveying the SSE's in KIE, many of which are underutilized for lack of marketing capabilities, and study ways of linking production in these establishments to larger manufacturing concerns which may need inputs and supplies produced by the SSE's. KAM could support the KIE units with marketing, training and creating the contacts among the larger firms.

8. Mr. Ita concedes that the Asian community has a serious image problem, mainly because the Asians do not play fair. Involving the Asians in developing the SSE's is difficult. The Asian sees these firms as the competition and is not willing to give a small African Kenyan firm a break in its distribution network. There are no forward looking Asian firms around, willing to lend a hand to the small African Kenyan entrepreneur. Even those Asian entrepreneurs who are considered more trustworthy are usually involved in some shady dealings with GOK officials. They contribute to the corruption of the system.

9. Most of the more open-minded Asians are not the businessmen, but the professionals. Thus there is a greater degree of collegiality between African Kenyan and the Asians in the professional associations such as the Medical Association, the Surveyor Association, the Accountants association.

10. It is impossible to address the Asian community as a whole because they too are conflict ridden. The Ismaili do not get along with the Sha and the Batele; the Hindus do not get along and distrust the Muslims.

11. The mix between European, Asian, Kenyan African in the Kenyan economy is not necessarily bad. Mr. Ita believes the mix fosters a potentially healthy competitive environment.

Meeting with Mr. Peter Carr, consultant with the World Bank
2/21/89
Participants: San Martin

1. Mr. Carr is in Kenya, under the Ministry of the Treasury, developing an export credit guarantee scheme. He believes the that the GOK is sincere in its interest in supporting exports as a way of generating badly needed foreign exchange and jobs.

2. The GOK has had no well defined export promotion policies. The only such policy currently in place is the export compensation scheme. The scheme provides rebates on import duties for items used as inputs in export goods. But the scheme only applies to 750 items (down from 2,000 some months before) and only provides a 20% rebate. The rebate can take even years to process.

3. Another export support structure in Kenya is the Kenya External Trade Authority (KETA), a division of the Ministry of Commerce (present director, Mr. Andrew Wandjande). It is supposed to provide information on tariffs and quotas affecting Kenyan goods abroad and marketing assistance (trade shows mostly). Apparently some years back this organization enjoyed a good reputation, primarily because it had a very active and capable director. This is no longer the case, and KETA has been moribund.

4. Mr. Carr is proposing to the Ministry of Finance a two pronged approach to export promotion:

   a. The provision of a credit guarantee scheme. He believes, based on conversations with exporters and on past IFC studies, that the key constraint to exporters, particularly the African Kenyan, is their inability to get financing (working capital), due primarily to collateral requirements placed by commercial banks. There is a need for an organization such as USAID to provide US$ 3-5 mn in capital for the small and medium size exporter through a guarantee scheme.

   b. The privatization of KETA, so that it becomes a private sector exporters' association. There are no effective organizations representing the interests of the small exporter. The KNCCI has an exporters branch but this is not very active. Moreover, the KNCCI is perceived as ineffective and represents primarily traders, not producers. KAM's membership is composed primarily of manufacturers, which tend to be inward looking. There is a Horticultural Crop Development Authority (HCDA -- present director Mr. Michael Mulandi), which is supposed to promote the export of these crops, but this is a parastatal and largely perceived as ineffective.

5. EPZs in Kenya seem to have limited potential. Kenya is coming into this fairly late in the game. Countries such as Mauritius are more attractive now, and the policy environment must stabilize before investors can be attracted from abroad. One positive point is the fact that Kenya is not yet constrained by US import quotas for its goods, particularly textiles. There may be firms which will be attracted by this.

6. Besides the IFC and World Bank, there are no other donors interested at the moment on export promotion issues.

7. Leaders in the export community (producers of non traditional agricultural and non agricultural products) are difficult to find, because their activity is relatively recent. Some names that do come to mind are: East African Industries (Unilever -- Mr. Joe Wnagi); East African Packaging (Mr. Cliff). There is also a women's cooperative which is exporting handicraft. The contact there is Ms. Naomi Munzia.

Meeting with Mr. R. Bird -- Barclays Bank 2/22/89
Participants: Jantio, Murphy, San Martin, Wise

1. There are over 500 commercial bank branches in Kenya. The banking community's ability to mobilize rural savings in Kenya has been very good. The problem has been the banking system's ability to channel those savings into the rural economy. Barclays has about 25% share of the banking system (33% of the savings, 22% of the lending and 25% of deposits). Traditionally, most of Barclays' loan portfolio has not be agriculture. The KCB and Standard are far more prominent in that area.

2. The credit squeeze and increased GOK borrowing to finance its debt through issues of T-Bills and T-bonds has crowded out private sector credit. Banks are now short on liquidity. Since the GOK borrows to cover bad debts, the majority of the money borrowed is not being put to productive uses. Banks too have preferred to invest in the T-bill market because the returns are so attractive, compared to the relatively poor margins obtained through lending to productive enterprises due to the interest rate ceilings.

3. The cap on interest rates means that margins are small and the banks have little incentive to make longer term loans or lend to higher risk operations such as SSE's.

4. The Ministry of Finance would like to be able to liberalize the interest rates. It is thinking of moving to a structured where higher rates would be allowed for long-term lending.

5. GOK credit ceiling policy has been inconsistent, making it difficult for banks to plan their lending portfolio. The policy is quite stringent at the moment, particularly because the ceilings are set based on the drawn books and not on the amount actually lent.

6. It is far more lucrative for non-bank financial institutions and smaller banking institutions to lend to other banks than to productive enterprises in other sectors. There are different rate ceilings and generally less regulation of inter-bank lending (there is a ceiling of 18% that applies to all).

7. Banks in Kenya have expanded very rapidly in the last few years and their management resources are stretched. The average years of experience of a manager in Kenya is 10-15 years, whereas in Europe it averages 25. KCB managers are even less experienced.

8. Traditional banking training in Kenya has not been oriented towards projects. Bank managers tend to be security lenders. It is more comfortable and requires less analysis.

9. Barclays' loans in Nairobi and Mombasa are covered by deposits from these areas, so that it is not true that deposits from rural areas are being channeled back into major urban centers. Barclays is increasing its portfolio in rural areas.

10. Barclays would like to establish a small business division and an extension services for SSE's (perhaps with USAID or ODA assistance). The bank has the infrastructure and the management, but they lack the training in some areas, such as project appraisal. There is also a need to promote group lending to decrease the costs to the banks of making loans in the SSE sector.

11. Banks are already very active in rural areas and have the capability to be even more so. The problem is not mobilizing credit resources, those are already there. There are banks in almost every community. The issue is helping banks and training personnel so they can be

more effective in channeling those resources back into the smaller communities. This means training in project lending and orienting managers away from traditional security lending.

12. There is also a need to streamline the loan application process and place more discretion in the hand of the loan officer. This could be done through a point system, where if the applicant meets certain criteria he/she automatically becomes eligible for a loan. At this point there is too much paper work. The paper work burden imposed by the foreign aid agencies is particularly onerous. Each program of each agency has different paper work requirements.

13. The cap on borrowing placed on foreign owned companies is a disincentive to investment. It encourages transfer pricing.

14. The Kenya Bankers Association represents the industry (it has a total of 25 members). It is perceived to be a strong and effective organization. There is also the Kenya Bank Employers Association. The relations with the present Governor of the Central Bank are quite good, meeting frequently on a formal and informal basis with representatives of the industry. Generally, small banks are less willing to take the time to dialogue with the GOK or help prepare position papers on GOK policy.

15. The enthusiasm for reform of credit and interest rate policies and liberalizing banking regulations is quite high at the ministerial level. But the divisional heads and other lower level officials are less keen on reform because it threatens their bureaucratic turf.

Meeting Mr. Ben Gacanja -- Crescent Industries 2/22/89
Participants: Murphy and San Martin

1. The firm manufactures carbon paper and typewriter ribbon. It has 21 shareholders, all of them African Kenyan.

2. It is thinking of starting production of business forms. Mr. Gacanja would like to get some assistance in doing a marketing study. He also needs assistance in investigating the best type of technology and machinery for a firm of his scale. He has considered using the services of IESC fears that his firm and market are too small to profit from the knowledge of the IESC consultant. Generally he feels that too much is spent

bringing expatriates from abroad, who often lack the knowledge about local working conditions and may give inappropriate advice. It is better to try to recruit someone locally to do this.

3. He participated in a training tour of the US, sponsored by USAID, where he visited US firms in the same line of work. The firms with which he was initially put in contact were too large, so they had little in common with his own enterprise. The firms there did put him in contact with some smaller operators from which he did learn a lot about operations and technology.

4. Entrepreneurs in Kenya are not prepared to risk large sums of money on projects. They prefer to invest in areas where they are assured of a return in one or two years maximum. The political environment is too unstable to encourage longer term thinking. GOK pronouncements make the investors j .tery. It is also better to work quietly and try not to attract too much attention.

5. GOK says it wants to promote private African Kenyan enterprises but political reality is quite different. GOK interference put a local paper manufacturer out of business. GOK allowed the import of paper bags which were sold much cheaper. The local firm could not compete. The son of the President was one of the larger importers. As a result, today there is a shortage of paper in Kenya and all is imported. Now an Asian wants to establish a paper plant and the GOK may let him.

Meeting with Mr. Sultan Poonawala, Mr. Bal Raj Capur, Mr. M.B. Ingersoll, Mr. James G. Nduati -- Industrial Promotion Services (Kenya), Ltd. (IPS) 2/23/89
Participants: Jantio, San Martin, Wise

1. The development banks in Kenya are no longer a source of long-term capital. Most of the projects in which these banks invested are in receivership or going through very difficult periods. The development banks are confining themselves at this point to merely trying to rehabilitate ongoing projects rather than lending to any new ones.

2. The key reasons for the difficulties faced by development bank projects are:

   a. Management: development banks do not have any say in the management of the projects to which they lent. The borrowers, particularly those in smaller enterprises, are usually reluctant to hire a professional manager, thinking that they can do it all themselves. They are not groomed in management. There is also a tendency to confuse cash flow with profit, so that the money is not handled adequately.

   b. Lack of working capital. Many of these smaller enterprises borrowed from NBFI's and they are 100% debt financed. This makes it difficult for them to raise working capital; their assets are already mortgaged and the banks are unwilling to lend under such conditions. The investment banks do not provide for a cost overrun provision in their lending agreement and as a result money runs out for this enterprises just as they need it most. IPS does provide for cost overruns -- it has made the difference between success and failure in many instances.

   c. Foreign currency fluctuations. The development banks lend only in foreign currency. The borrowers have found that they cannot charge prices high enough to cover the devaluations.

3. IPS avoids all this problems because:

   a. IPS is directly involved in the management of the enterprises in which they own equity. IPS enters into a management support agreement with the firms in which they invest.

   b. IPS has a strict criteria for project selection.

c. IPS ensures that no one group of investors has de facto majority in the company, unless they are very sure of the sponsors. IPS takes equity positions ranging from 12.5% to 40%. In Kenya the minority shareholders have few rights within the company.

4. IPS has been operating in the country for 25 years. It is the largest investment company in the country. Given the inactivity of development banks in equity financing, they are among the few organizations left providing such venture capital. It tries to insure that its investors receive a return on investment ranging between 17 and 18%. They have a policy to sell out after a number of years and capitalize on their investment.

5. They prefer not to make investments in agro-processing projects which are not export oriented. Wire-making projects have been very successful. The source of projects for investment are varied. IPS is currently looking at some of the projects financed originally by the development banks.

6. USAID money has been crucial in helping them build up their project appraisal team. It has enabled them to look at projects that they might otherwise not have considered.

7. Problems they have faced developing projects (African Kenyan in particular):

a. Private investors do not like the thought of signing a management support agreement with IPS. But IPS will not invest in a project unless they are assured a say in the management of the company.

b. IPS will not invest in trading operations. But many of the medium and smaller firms have begun as traders and created backward linkages into manufacturing or processing, hence they are traders and ineligible for IPS investment.

c. The lack of reliable import data makes it difficult to undertake good market and feasibility studies.

d. Markets in Kenya are small and the production costs in many industries are high, making it difficult for firms to compete abroad. Anomalies in the import duty and tariff structure make it difficult for local manufacturers to compete with some imported goods.

e. It is difficult to access land, particularly for agriculture and agro-processing projects. The Ministry of Lands and Housing is not willing to allocate GOK land until an interministerial committee has approved it. But this means that decisions on land allocation inevitably stalemate at this committee. In the case of private land allocation decisions, the situation is much worse. One must then go to the land control board and, before any allocation can be made, the consent of the entire family must be obtained. But there is still sufficient GOK land available for project development. IPS tries to get around the land problem by selecting only entrepreneurs who have obtained allocation of land. Land titling problems also exist (since there are no good cadastral surveys).

8. APDF has provided them information and assistance in identifying African-Kenyan entrepreneurs and projects.

9. IPS has found a higher percentage of "wasted" effort when promoting African Kenyan projects. The local African entrepreneur will string them along until the very last moment, when IPS has undertaken all the feasibility studies, and then pull out. These firms will use the IPS studies to raise capital from family and other sources. This way they use IPS resources to secure financing and avoid IPS involvement in the management of the firm. Since the IPS-sponsored studies enabled the entrepreneur to interest other parties in the first place, IPS feels "robbed".

Meeting with R. Perry -- African Project Development Fund
2/24/89
Participants: Murphy, San Martin, Baker

1. APDF provides the following assistance to African Kenyan businessmen in order get their projects to the bankable stage:

   a. They assist in the production of required feasibility studies and in putting together a proposal.

   b. Assistance in secu-ing financing for that project.

2. APDF is a regional project, operating in all the REDSO countries. They have a regional office in Abidjan and another in Nairobi. They are developing 32 projects in the East Africa and 6 specifically in Kenya.

3. Despite the squeeze on credit in Kenya, financing can still be secured for most projects, albeit with some difficulties. The problem is much worse in other countries. The banks in CFA countries, for example, are mostly insolvent due to a number of loans which have gone sour.

4. APDF's policy in Kenya is to provide assistance only to African Kenyans, though projects with mixed shareholding are acceptable as long as the African counterpart has majority interests.

5. The APDF portfolio does not have a sectoral emphasis. The key criterion is that the entrepreneur have some capital and a track record. While finding these entrepreneurs may be a problem in Kenya, it is much worse in other countries, such as Zimbabwe, where the indigenous private sector is very small.

6. APDF markets is services by advertising in the press, holding press conferences. Their network of contacts in development and commercial banks also helps identify potential projects.

7. They have been talking to IPS about two projects.

8. It is not difficult to find projects in Kenya. APDF feels it has not even scratched the surface in terms of the potential for development.

9. APDF administrative costs are quite high. It is not a commercially viable operation; it is developmental. They are working with the marginal investor.

10. Large projects are politically problematic. It is best to keep projects in a smaller scale.

11. There is a lack of business culture in Kenya, and Africa as a whole. The region needs a quality business/management training school, a center of excellence for business administration, rather than a technical school or college, to build entrepreneurs.

Meeting with Mr. E. Matheu -- Kenya Commercial Bank
24/2/89
Participants: Jantio, Greenberg

1. KCB is an SOE with private sector management. It plays a role in implementing GOK policy and has what are purely private sector operations.

2. KCB is the largest commercial bank in Kenya: it has 67 branches, 45 satellite branches and 111 sub-branches, for a total of 244 outlets representing 53,8 percent of the banking outlets in the country.

3. Only 67 branches supply credit. Any locality can use up to 50 percent of deposits collected, although most rural branches cannot lend more than 25 percent.

4. According to Mr. Matheu's, the constraints to economic growth in Kenya are:

   o import restrictions

   o price controls

   o lack of equity capital

   o lack of collateral

5. Jua Kali is working very well, particularly in rural areas. It cannot, however, be a self-financing program because of: lack of administrative skills among the recipients, high administrative costs for the bank, the interest rate ceilings imposed on the program do not take into account the higher risks inherent in these enterprises.

6. To work, Jua Kali must rely on groups and cooperatives as middlemen.

7. The banking industry has developed a high degree of cohesion, largely because of the two industry associations:

- o Kenya Bankers Association. A number of committees specialize on key issues. There is one committee which deals solely with the Central Bank.

- o Kenya Employers Association

Mr. Jim Tomecko -- Kenyan Industrial Estates 24/2/89
Participants: Jantio

1. KIE organized recently a series of dialogue sessions between the GOK and leaders in the private sector. The purpose of this dialogue was to exchange ideas and visions and design an action paper on the informal sector. Mr. Tomecko served as the project coordinator.

2. A one week seminar was organized with the participation of major leaders (KAM, K-MAP, Fred O'Regan, Labor, head of Small Enterprise Division at the Ministry of Industry, Ministry of Planning representatives, the head of Fiscal/Monetary policy at the Ministry of Treasury, private entrepreneurs, and representatives of the Kenya Society for Small Traders.

3. Mr. Tomecko, upon being told about the MAPS dialogue sessions which were planned, had several recommendations to make:

- o The participants should have ownership and perceive that they have control over the recommendations and, if possible, over the whole project.

- o It is important to involve key interest groups (NGO's, private sector representatives, banks, relevant GOK officials) who have a stake in the informal sector. KIE hired a consultant to identify who was who in the Kenyan small enterprise "map." Then 10 workshops were organized with the participation of 25 articulate representatives of the sector who knew the sector well.

- The dialogue sessions should focus on specific issues, and end up with concrete results and recommendations. To do this KIE used a methodology to build consensus known as "AIM." The methodology takes into account everyone's problems (either as a cause or an effect). These problems/observations are incorporated to derive a "problem tree" from which objectives are derived.

4. The seminar arrived at the following conclusions:

- There is a poor enabling environment for small scale industrial development. In particular:

  a. the regulatory system is cumbersome;
  b. the macroeconomic policy framework is inappropriate;
  c. the infrastructure is poor;
  d. information dissemination is poor;
  e. the institutional structure is poor (specifically, while GOK has a well defined policy for MNC's, it lacks any kind of framework or plan to develop SSEs).

- The investment level is low because:

  a. there is lack of money resources (due to the credit squeeze caused by GOK deficit finance);
  b. banks have insufficient incentives to lend money to small firms (this could be redressed through the use of tax incentives, allowing banks to charge higher interests for higher risk lending);

- There is a need for financial management programs (extension, entrepreneurship development programs, reforms in the higher education curriculum to place a larger emphasis on practical business . courses).

5. The major results of the conference:

- Draft of a strategy paper which identifies projects to develop the SSE, some of which are being incorporated into the GOK's upcoming Five Year Plan.

- Cataloguing essential infrastructure improvements necessary for private sector development.

- Educating key GOK officials on the need to incorporate into their macroeconomic policy framework, the needs and constraints facing SSEs and the need to organize SSEs by sector.

- o Development of a positive private sector culture among indigenous Kenyans; the conference helped promote and popularize the role of the entrepreneur as a hero of economic development.

6. These results have been summarized in a paper which is being distributed to GOK officials at the highest levels. The issue is now implementation of these ideas.

7. The price tag for this conference was covered through donor funds.

Meeting with Mr. George O. Ng'ang'a -- Investment Promotion Centre 27/2/89
Participants: Jantio, Murphy

1. The IPC is a parastatal operating under the Ministry of Finance/Treasury.

2. The IPC's functions are:

   - o To provide a "one stop approval mechanism" or "one stop shop" for foreign investors. The Investment Facilitating Committee (IFC) plays an important role in all of this, providing free services to investors. The IFC has helped evaluate 50 projects since April 1988.

   - o Support/promote manufacturing for export. Manufacturing in bond zones have been defined in Nairobi, Mombasa and Kisumu. The MOF must still give final approval to this scheme however.

   - o Promote Export Processing Zones (EPZs). Land has been acquired in Nairobi (behind the airport), in Mombasa and in Kisumu. SRI has studied and analyzed issues in investment promotion in Kenya.

3. GOK attitudes towards EPZs can be summarized as follows:

   - o The GOK is very cautious towards foreign investment;

   - o The GOK questions investor honesty and integrity: why invest for export, given the profitability of the local market (protected by tariffs and quotas)? Hence many in GOK still fail to see the advantage/need for an export orientation.

4. A private developer, Mr. John Mbugua (former Kenyan Ambassador to the US and Director for DelMonte, put forth recently a proposal to develop an EPZ. But he failed to get enough backing.

Meeting with Mr. Ernest Kepper -- International Finance Corporation
Participants: Jantio, Murphy

1. The IFC funds projects and has a large portfolio in Kenya. The total IFC portfolio in Kenya adds to about US$ 80 million. Only Zambia, with a project portfolio of about US$ 110 million, is larger in terms of IFC funds.

2. The major challenge for the IFC is to overcome the lack of information on projects and firms. Most recipients refuse to provide the information necessary to appraise their feasibility appropriately. They fear what tax men, the government, the competition will do with this information.

3. There are many organizations in Kenya which work with and provide support to small enterprises:

   - KEM
   - IFC - African Development Funds
   - IPS
   - SEFCO
   - KIE
   - K-MAP
   - CDI (see Chris Malavu)
   - African Project Development
   - Chamber of Commerce (the problem is that the very small entrepreneurs do not belong to it)

4. The IFC and IBRD have started monthly dialogue sessions with the donor community in Kenya that address the constraints faced by the small enterprises.

Meeting with Mr. T.K. Birech Kuruna -- Central Bank of Kenya
23/2/89
Participants: Murphy, Jantio, Wise

1. The major objective of the Central Bank is to contain credit expansion, as required by the IMF, limiting credit growth to 0.8% per month, using December 1988 as the base.

2. This restriction does not discriminate by type of credit (whether it is for export or agriculture). It gives no priority to any sector. It is up to the commercial banks to allocate the credit. There are however guidelines that state that 17% of the credit will be agriculture, and 10 to 17% of the credit should be obligated to the private sector. But these are not requirements.

3. Aggregate credit growth has been below the IMF ceiling.

4. The ceiling is applicable even to priority sectors. There are special organizations which have been set up to provide special assistance with GOK support to these priority sectors and thus ameliorate the effects of the ceiling: e.g. the Agriculture Finance Corporation provides special assistance for agriculture; the Industry development Corp provides special assistance to industry; the Kenya Industrial Estates provide premises and capital for small manufacturers.

5. The credit restrictions will continue. In March the ceiling will be lower than in December 1988. Banks should decrease l;ending to sectors which are not a priority.

Meeting with Mr. Michael Mills, Deputy resident Director -- World Bank 27/2/89
Participants: Jantio, Murphy

1. Private sector is no longer a dirty word in Kenya. The GOK recognizes that improving the private sector is the answer to job creation.

2. GOK has taken measures to: decrease government deficit; depreciate the exchange rate (although there is still some discrepancy between the official and the market rate); lift price controls (only on 20 items).

3. There is no IDA money for the private sector.

4. The World Bank has done private sector assessment work in some countries.

5. The informal private sector is supported by the KIE. But the KIE is only part of the answer and can only address some of the issues for some types of micro-enterprises.

Meeting with Mr. G.N. Koditi, Acting Director -- Federation of Kenya Employers (FKE) 28/2/89
Participants: Jantio

1. The FKE focuses primarily on labor relations and provides advice on industry relations.

2. The FKE has 3,000 members.

3. Mr. Koditi believes that the GOK is already oriented towards the private sector, as has been reflected in the number of divestitures, its pronouncements ending subsidies to parastatals. It understands that future employment will need to come from the private sector, and hence that the health and growth of the private sector is crucial.

4. The major constraints to the growth of private enterprise are the importation system (overly bureaucratic with many bottlenecks) and the lack of availability of foreign exchange.

5. He does not think that the development of EPZs can take place in Kenya without GOK involvement at some level. The chance of being cheated by unscrupulous investors, GOK feels, is very big.

Meeting with Mr. Andrew K. Kitonyi, General Manager -- Small Enterprise Finance Company (SEFCO) of Kenya 28/2/89
Participants: Jantio

1. SEFCO finances small businesses (only loans, no equity) outside Nairobi and Mombasa. It is a development bank with 5 field offices. Its main product is the fully secured loan:

	No. of Loans	% of Portfolio
Fully secured loans	140	90
Jua Kali	275	10

2. The default rate on Jua Kali is 20 percent. The SEFCO goal for Jua Kali is to develop entrepreneurs so that they can become mainstream bank customers (providing training to write investment proposals, for example).

3. Jua Kali is good for development banks but it is not a profitable activity for commercial banks. The costs are too high.

4. Mr. Kitony believes that Jua Kali could become a stand alone program if the volume of loans is sufficiently large, since administrative costs are inversely related to administrative costs.

5. The key constraints to growth of small enterprises are: lack of marketing skills; lack of record keeping skills; lack of capital and alternative sources of financing; lack of knowledge about the finance sector and the opportunities it could offer firms of their size; the one-man-show structure of most firms of this scale (which means that the risk of failure is very high if the owner has some short-term family problems which draw funds and attention from the enterprise).

6. The British High Commissioner has commissioned a study on small enterprise. The individual undertaking this study is: David L. Wright
   103 Albert Street
   Regents Park
   London, NW17LY
   (01) 485 8739

Meeting with Mr. F.N. Macharia, Chairman -- Kenya National Chamber of Commerce and Industry (KNCCI) 28/2/89
Participants: Jantio

1. USAID is assisting KNCCI by providing computers and one full time consultant to assist in computerizing their membership files and installing a management information system.

2. KNCCI has 38 branches around the country and 5,000 members. Its main role is information dissemination and liaison with GOK and other Chambers overseas. It has organized seminars for members.

3. KNCCI produces an "economic paper" every year where it reviews the budget and makes proposals and recommendations on GOK policy.

4. The Joint Industry and Commercial Committee allows representatives of the KNCCI to meet with representatives of the Ministry of Finance, Ministry of Agriculture, Ministry of Commerce, Ministry of Industry, the Central Bank, KAM and the Office of the President in regular policy dialogue sessions.

5. The major challenge facing KNCCI is to establish a permanent source of income aside from loans and grants.

6. Mr. Macharia believes the key constraints to private sector development in Kenya are: the bureaucracy and policy connected with import licenses; the delays in obtaining import license authorizations; the lack of transparency in policy implementation; the lack of export incentives.

7. Mr. Macharia knows that a major developer is very interested in promoting the idea of EPZs. He has the land and has started to build the necessary infrastructure. This developer is: Mr. Mohan Galot
Mohan Meakin Ltd
P.O. Box 57387
Nairobi
(0150) 20278/83/334

ANNEX 5

PERSONS INTERVIEWED BY THE MAPS TEAM -- PHASE I

LIST OF PERSONS INTERVIEWED BY THE MAP TEAM

USAID/KENYA MISSION

Projects Office

Gordon Bertolin
Stafford Baker
Holly Wise
Migwe Kimemia
Justus Omolo
Jerry Tarter
Sandi Severn
Michael McWherter
Mark Renzi
Anniel Lutton

Senior Staff

Steve Sinding (Mission Director)
Carol Steele (Program Office)
K. Toh (Mission Economist)
R. Singer (HRD)
Oot (Health/Population)
Gingerich (Agriculture)

Michael Lippe (RHUDO)
J. Kolker (RHUDO)

USAID Projects

Fred O'Regan (Rural Enterprise Program)
Judy Beckwith, Deloitt Haskins + Sells (Rural Private Enterprise)
Mwenda Thiribi, Deloitt Haskins + Sells (Rural Private Enterprise)
Bruce Bouchard (Kenya Equity Management)
Silas Ita (Kenya Association of Manufacturers, PED)
Sultan Poonawala (Industrial Promotion Services, PED)

Private Enterprise Community

Mr. Leakey -- Prestige Safaris
Nizar Meruani -- Managing Director, Diamond Trust
Chris Malavu -- 4M Enterprises
Ngenye Kariuki -- Chairman, Nairobi Stock Exchange
Peter Muiruri -- Director, Hotel Adventure and Travel, Ltd.
T.K. Birech Karuna -- Central Bank of Kenya
Ernest Kepper -- International Finance Corporation
Ben Gacanja -- Crescent Investment Ltd.
Robert Bird -- Managing Director, Barclays Bank of Kenya Ltd.
John Mbururu -- Standard Chartered Bank
Sultan Poonawala -- Industrial Promotion Services (Kenya) Ltd.
Bal Raj Capur -- Industrial Promotion Services (Kenya) Ltd.
M.B. Ingersoll -- Industrial Promotion Services (Kenya) Ltd.
James G. Nduati -- Industrial Promotion Services (Kenya) Ltd.
W. Mutsune -- Kenya Tourist Development Corporation

E. Matheu -- Kenya Commercial Bank
Richard Parry -- Africa Project Development Authority
Jim Tomecko -- Kenya Industrial Estates
J.N. Kimeria -- Managing Director Investment Promotion Centre
Michael Mills -- Representative, The World Bank
G.N. Koditi -- Acting Director, Kenya Federation of Employers
A.K. Kitonyi -- General Manager, Small Enterprise Finance Company of Kenya
Francis Macharia -- Chairman, Kenya National Chamber of Commerce and Industry
Peter Carr -- Consultant, The World Bank

ANNEX 6

BIBLIOGRAPHY

DOCUMENTS USED IN THE MAPS EXERCISE

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Project Paper - Rural Private Enterprise Project 615-0220
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How to Obtain Loans and Business Assistance in Kenya
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Brochure on the Africa Project Development Facility (APDF)

BACKGROUND NOTES TO THE REPORT

The PEDS Project

This study was conducted under the Private Enterprise Development Support Project. The PEDS Project is a five year (FY88 - FY92) $20 million project managed by the Bureau for Private Enterprise. The PEDS Project is designed to provide a wide range of expertise in private sector development. Areas of technical assistance include the following:

- Policy analysis related to private sector development
- Sector assessments and analyses
- USAID private sector strategy development
- Legal and regulatory analysis and reform
- Small-scale business development
- Trade promotion
- Investment promotion
- Free trade zone development
- Financial institutions and instruments
- Management and financial training
- The role of women in private enterprise
- Applications of MAPS: Manual for Action in the Private Sector

USAID Missions have the resources of thirteen contractors available to them through the PEDS Project.

- Arthur Young (prime)
- SRI International
- Management Systems International
- The Services Group
- Trade and Development, Inc.
- Multinational Strategies
- J.E. Austin Associates
- Ferris & Company
- Metametrics
- Elliot Berg Associates
- Robert Carlson Ass.
- Ronco
- Dimpex Associates

The Consultancy

The purpose of this consultancy was to assist the USAID Mission in the initial planning and design of MAPS (Manual for Action in the Private Sector) in Kenya. The team members included Kevin Murphy, Tessie San Martin and Roger Jantio from J.E. Austin Associates. The team was assisted by Donald Greenberg, Private Sector Advisor to USAID Missions in the REDSO/ESA region, and Holly Wise, USAID/Kenya Project Officer. The team carried out its first visit during the period of February 12 to March 4, 1989.

The Authors

Mr. Kevin Murphy is the President of J.E. Austin Associates. Previously, Mr. Murphy served as a senior management advisor to the Instituto Superior de Agricultura in the Dominican Republic. He also worked for a year on the research faculty of Harvard Business School authoring nine case studies on international agribusiness. He holds a Master of Business Administration from Harvard Business School and a Master of Public Affairs from the Harvard University School of Government.

Dr. Tessie San Martin is a senior consultant at J.E. Austin Associates where she specializes in economic cost-benefit analysis, policy analysis, public managment, data analysis, economic analysis and human resource planning. She has participated in MAPS planning and implementation in Lesotho, Swaziland, Ghana and Kenya. Previously, Dr. San Martin was a senior economist for Jack Faucett Associates and an adjunct professor at Florida International University. Dr. San Martin holds a Ph.D. in Political Economy and a Master in Public Administration from Harvard University.

Mr. Roger Jantio is a senior consultant at J.E. Austin Associates. Previously, he was the Executive Vice President of Aqua Viva in Paris and an investment analyst at C.S.E. Insurance company in San Francisco. He also worked on aerospace and mergers & acquisitions projects as a consultant with J. Schneider Associates in Cambridge, Massachusetts. Mr. Jantio holds a Master of Business Administration from Harvard University, a Master Degree in economics and finance at the Institute d'Etudes Politiques of Paris, a Master Degree in insurance and applicable laws at the Universite de Paris-Sorbonne and a Bachelor of Arts degree in economics and monetary policy at the Universite de Paris II.