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PROSPECTS AND STRATEGIES FOR INVESTMENT PROMOTION IN KENYA

VOLUME II: PROMOTING PRIVATE INVESTMENT IN KENYA

January 1986

SRI Project Number IMU (550)-1463
Contract Number 615-0213 PSI 02

Prepared for: The Investment Advisory and Promotion Centre
Republic of Kenya
and
USAID/Kenya

By: International Policy Center
SRI-International-Washington

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PROMOTING PRIVATE INVESTMENT IN KENYA

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EXECUTIVE SUMMARY

The study culminating in this report was commissioned by the Investment Advisory and Promotion Centre (IAPC) of the Government of Kenya. Funding was provided by the United States Agency for International Development Mission to Kenya. This Report, along with its companion volume "The Investment Climate of Kenya," was prepared by the International Policy Analysis (IPA) unit of SRI International, a private nonprofit U.S. research and consulting organization. The objective of this report is to review past investment strategies and promotion efforts in Kenya, and provide recommendations for future programs and activities of the IAPC.

Since independence was achieved in 1963, the Government of Kenya has continuously sought to encourage private investment in an effort to meet the nation's development objectives. Attitudes and policies toward private enterprise, both domestic and foreign, have evolved over time, and have therefore shaped the business climate. The role of government on investment issues grew continuously over the course of the 1960s and 1970s, but the current trend is toward reducing direct and indirect forms of government involvement in the economy.

As a result of public opinion and government policies, Kenya's business climate has taken on a number of characteristics that affect investment in Kenya. It is oriented toward import substitution activities, places a high premium on local ownership, and is subject to considerable government controls. Promotional efforts have concentrated on the identification of potential projects by government agencies and development banks.

Efforts currently under way aim at removing a number of policy constraints to new and expanded private investment. Should these efforts prove successful, Kenya possesses a significant potential for additional, productive enterprises.

Past investment promotional activities undertaken by the Kenyan government have focused on project identification and financing. The creation of the Investment Advisory and Promotion Centre has established an institutional capability for marketing Kenya as an investment site.

The IAPC's work has recently concentrated on encouraging policy reforms which will improve Kenya's investment climate. This role is appropriate in the Kenyan context, and should be continued until concrete results are achieved.

The Centre's capacity to organize and conduct promotional campaigns and perform investor advisory services can and should be strengthened. Additional staff, facilities, and institutional resources are required to allow the Centre to reach a "critical mass" over time.

The project team recommends that the Centre pursue a three-phased organizational plan. During the institutional and product development stage, lasting approximately six months, the Centre should expand its resource base, continue with policy reform efforts, and begin to develop promotional materials. During its "pre-promotional" phase of about one year, the IAPC would shift from policy work and concentrate more heavily on designing a promotion strategy and program. In its active promotional phase, the Centre would implement a comprehensive promotional campaign and offer advisory services to prospective investors. Through the course of this plan, the IAPC should seek to encourage and enhance the growing momentum for greater public/private sector cooperation in Kenya.

The international donor community can and should contribute to the ambitious program being undertaken by the IAPC, which is directly involved in efforts to stimulate new investment and private sector participation in the economy of Kenya. Forms of assistance include the provision of office equipment, the funding of promotional materials and research, and the financing of technical assistance. Structural adjustment assistance can also play a major role in reducing the transitional costs of appropriate policy reforms.

I. INTRODUCTION

This report presents the analysis and conclusions of a project entitled, "Prospects and Strategies for Investment Promotion in Kenya." This project was sponsored by the Investment Advisory and Promotion Centre (IAPC) of the Government of Kenya. Funding was provided by USAID/Kenya under a U.S. structural adjustment assistance grant.

The project was undertaken by the International Policy Analysis (IPA) unit of SRI International, a private, nonprofit U.S. research and consulting organization. The project was managed under the overall supervision of Paul A. Laudicina, Director of the IPA unit. The project team consisted of John A. Mathieson, Senior International Economist, and Philip E. Karp, Political Economist, both on the IPA staff, and Ngure Mwaniki, Partner, Mwaniki Associates, a Kenya-based consulting organization.

The project team employed the following research methodology. Prior to visiting to Kenya, the SRI team reviewed materials available in the United States on Kenya's investment climate, and interviewed individuals in the U.S. government, the Kenyan Embassy in Washington, and the Kenyan Investment Promotion Office in New York. The team then travelled to Nairobi to conduct a series of in-depth interviews of private sector and government officials in mid-November 1985 through mid-December 1985.

The project team first engaged in detailed briefings with relevant officials at the IAPC and USAID/Kenya. The team then provided a briefing to the members of the IAPC Board of Directors on the subject of investment promotion. Next, the team collected locally available information and data on Kenya's investment climate, including economic analyses and discussions on the policy framework affecting investment activities in Kenya. The team then conducted interviews with business executives and public sector officials. A list of individuals is given in an appendix of this report. The project team's approach was to discuss investment matters with representatives of all government ministries and agencies directly relevant to investment issues, and with a representative sample of individuals from the business community, covering the most important sectors in Kenya (e.g., agribusiness, manufacturing for local consumption, exporting industries, financial services, etc.). In each interview, the project team both sought information on investment prospects and policies, and discussed possible policy initiatives. The objective was to arrive at a consensus view (to the extent possible) and measure the attitudinal climate for embarking on new investment policy initiatives.

These two reports represent the results of the research undertaken by the project team. Volume I is entitled "The Investment Climate of Kenya," and its companion Volume II is "Promoting Private Investment in Kenya."

The purpose of Volume I is to provide an assessment of the relative advantages and disadvantages of the Kenyan investment climate as it would be viewed by potential investors. That is, it covers those issues and makes those conclusions that would be included in a general "pre-feasibility study" by a prospective investor. As such, the project team members approached the issue as if they were conducting the study for a private firm.

The investment climate assessment in Volume I first reviews Kenya's investment "balance sheet," examining domestic economic endowments, the structure of and trends in the economy, and political and social factors affecting private investment. The next section discusses government involvement in the economy, including government attitudes toward private investment, and direct and indirect forms of government intervention. This is followed by a discussion on Kenya's investment policies and procedures, covering such areas as the investment approval process and controls on domestic and external commercial transactions. The next section presents the project team's assessment of the major policy constraints to existing and prospective investment in Kenya, along with the theoretically "ideal" solution to current constraints (from the view of investors), as well as possible initial steps that might be taken to begin the process of moving from actual to the ideal. The final section presents possible new opportunities for investments in Kenya.

Volume II examines past and present efforts to stimulate private sector investment in Kenya. It begins with a general review of Kenya's historical experience since independence in 1963. This is followed by a description of current promotional activities undertaken by the various government ministries and agencies, as well as by private sector organizations. The next section focuses on the Investment Advisory and Promotion Centre itself. Following a review of the IAPC's origins and institutional development, the project team analyzes the IAPC's current structure and operations. Then, a series of possible strategies and future directions involving institutional and programmatic alternatives are presented. The project team concludes the report with a series of observations and recommendations for general investment promotion strategies, as well as options for project/program funding by donor agencies.

The purpose of these reports is not to present an exhaustive analysis of all facets of Kenya's investment climate or promotional efforts, since this would go well beyond the scope and resources of this project. Rather, the goal is to show the basic strengths and weaknesses of the investment environment, in a manner which is as objective as possible, and to suggest ways in which the Kenyan investment climate can be more effectively promoted. On both of these issues, the project team has drawn its analysis and conclusions on the basis of the investment climate/promotion experience of numerous other developing countries. It is the intention and desire of the project team that these reports will be of assistance to those engaging in efforts to encourage new private sector investment in Kenya.

II. KENYA'S HISTORICAL EXPERIENCE

The Government of Kenya has since independence in 1963 consistently sought to encourage private investment, based on a firm belief that private capital is required to meet such development needs as employment creation, the production of food and other consumer goods, capital formation, generation of foreign exchange, and the acquisition and growth of entrepreneurial skills, appropriate technology, and managerial capabilities. Despite swings in attitudes and degrees of government intervention in the economy, there has been a fundamental and unbroken consensus among the leaderships of Kenya's modern sectors, both public and private, on the point that it is private capital and management that are best equipped to reach these economic development objectives.

This section reviews developments in attitudes toward and strategies for investment in Kenya, including the impact of Kenya's orientation on investment patterns. It then examines previous government and private sector efforts to stimulate private investment.

A. Post-Independence Strategies

At the time of independence, Kenya possessed a relatively advanced industrial base and export sector, most of which was owned and operated by foreign interests. Although Kenya did not engage in the type of anti-foreign-ownership campaign that sometimes accompanies the end of colonial rule, the statistics do record net outflows of foreign investment capital in 1963 and 1964. Such a trend was to have been expected at a time when Kenya's political regime was shifting from a colonial to an independent status.

What is truly remarkable, particularly when presented against developing-country standards, is that since 1964, Kenya has experienced continuing net inflows of private foreign investment. This is a credit not only to the ability of the Kenyan people and government to maintain political stability, an essential requisite to investor confidence, but also to the continuation of a pro-private enterprise attitude and a generally "open-door" policy toward foreign investment. The SRI project team's reviews of the experience of other countries indicates that the combination of political stability and acceptance of private enterprise for over two decades is very rare in most developing regions, but has been a common characteristic of those countries which have been most successful in generating high levels of sustained growth. These two factors represent Kenya's strongest assets in efforts to promote private investment.

The government's attitudes and policies toward private investment evolved over time and had a considerable influence in shaping the nature and direction of private enterprise in Kenya. This evolution is clearly evident in Kenya's consecutive development plans. Following the accepted development strategy of its day, the First Development Plan (1966-1970) focused on the need for Kenya to promote rapid industrialization and growth. At that time, only a few nations (e.g., Taiwan, Korea, Brazil, etc.) had embarked on export-led growth strategies, and the prevailing wisdom in most of the developing world was in favor of import substitution.

The Kenyan government therefore "promoted investment," indigenous and foreign, by providing domestic producers with protection against import competition through the application of tariffs and quotas. The government also "agreed" to participate in certain projects deemed profitable or in the public interest, which were too large for domestic investors to undertake, or which promoted "Africanization." At that time, government participation was in most cases not only accepted but also welcomed by the private sector, which lacked sufficient capital or wished to diversify risks.

During the Second Development Plan period (1970-1974), the government instituted a strategy which called for an expanded degree of government participation in new projects. The end objectives were to accelerate the rate of industrialization through import substitution and more extensive use of domestic resources, and to achieve greater diversification of the industrial sector. An added goal was to promote the development of the East African Community, an enlarged market for increasing production economies of scale. In this period, new projects were designed and promoted by the Industrial Survey and Promotion Centre (ISPC) within the Ministry of Industry, and were reviewed and approved by a Projects Committee with representatives from the relevant ministries. The role of these and other institutions will be described later in this report.

The Third Development Plan (1974-1978) was in force during a period of unprecedented international shocks including dramatic oil price rises and global inflation and recession. In order to address these realities, the Kenyan government's investment policy applied additional efforts to meet the now-institutionalized goals of increasing domestic production to substitute for imports and conserve foreign exchange, generate employment and tax revenues, and encourage the "Kenyanization" of the industrial sector. By this time, the mixed-economy policy stance of the government became solidified. While continuing to support the activities of private enterprise and foreign investment, the government actively invested in certain business ventures in order to reach determined goals.

The mixed role of public and private enterprise was maintained and increasingly targeted during the term of the Fourth Development Plan (1979-1983). The government continued to participate in projects involving important economic activities, such as agricultural processing, potential exporting, and import substitution industries. The private sector was encouraged to invest in such areas as manufacturing for export, food processing, mining, and tourism. In addition to seeking the traditional goals of employment, import substitution, and foreign exchange earnings, the government preferred productive investments with local (public and private) equity shareholding and with potential for growth and reinvestment.

The current Development Plan (1984-1988) reiterates the mixed economy orientation, but calls for greater reliance on private savings and investment as engines of national development. The current plan stresses the importance of positive economic incentives as a prerequisite for productive private investment.

Throughout two and a half decades, the Kenyan government has designed, implemented and refined policies which over time have shaped the investment climate. In doing so, the government has enjoyed the implicit or explicit approval of Kenya's private sector and general public. Therefore, one can conclude that the basic approaches and strategies undertaken represent a consensus supported by the public at large. This is critically important, for if fundamental official policies do not coincide with the will of the public, their legitimacy and effectiveness will surely erode over time.

The historical experience of investment promotion in Kenya has left a legacy that has erected considerable constraints to new investments in desired activities. This legacy can be described in terms of the following functional traits. Possible policy reforms are suggested in the companion volume of this report.

Import Substitution: The overwhelming majority of Kenya's investment policies and incentives are designed to stimulate the production of import substitutes. The basic strategy has been to restrict imports rather than promote exports, despite irrefutable cross-country evidence that following an initial period of expansion such strategies lead eventually to declining domestic benefits, inefficient production patterns, and only limited growth prospects. The principal external strategy used by most Latin American and African nations has been import substitution. The growth rates of these countries have fallen well below those of East Asian nations which have relied on export-led growth. This fact has been confirmed by hundreds of academic, government, and donor agency studies conducted over the past fifteen years.

The attitudes and interests of both the public and private sectors in Kenya are firmly attached to import substitution, which admittedly has considerable public appeal. Local firms seek continued protection of their markets, particularly in view of other administrative policies such as price controls, and also express high degrees of uncertainty and even fear at the possibility of being subjected to either domestic or foreign competition. These deeply engrained positions -- however understandable -- have effectively blunted any major efforts to promote exports. Whenever the project team posited approaches to stimulate exports, those interviewed voiced strong concerns -- backed up by examples -- as to how such approaches could damage the domestic (import substitution-based) economy.

Kenyanization: It is legitimate for any society to determine acceptable levels of local versus foreign ownership of domestic enterprises. This holds particularly for countries such as Kenya which inherited a colonial structure of foreign ownership in many strategic industries. "Kenyanization" as a goal holds a high political and economic priority for the people and government of Kenya, and the latter has employed a strategy for increased local ownership which is responsible and in fact highly commendable. Kenya has not engaged in the kind of wholesale nationalization and blatant anti-foreign biases that have undermined international investor perceptions of some countries for years or even decades.

While the aim of increased local ownership is legitimate and even appropriate, the actual pursuit of this objective in Kenya has led to certain problems which have clouded the development of private investment. First, due to the lack of domestic private capital, local participation in investments in practice has come to mean government participation. Numerous institutions have been created to channel investments into local hands, but these institutions have become government shareholders by default. Also, the government's desire to keep marginally profitable or unprofitable private enterprises in operation has over time resulted in the creation of a growing number of parastatals, some of which compete with private firms, and due to their ownership, often receive preferential treatment. The presence of parastatals in particular industries often precludes or reduces the profitability private investment. A second problem arising from the local ownership goal is confusion over the precise definition of local, and the consequent need for new investors to enter into complex ownership/management arrangements. Whether legitimate or illegitimate, these practices create uncertainty both within approving agencies and within the business community.

Kenyanization -- as administered -- has not deterred foreign investment. Entrepreneurs often seek local joint venture partners in their own interest, but they do not want local ownership requirements dictated to them.

Government Control: The government's desire to control economic activities is a phenomenon based on a large number of historical factors, including Kenya's colonial heritage (the British system of administration), ethnic and tribal rivalries, efforts to keep multinational corporations in line, the nature of the political system, and the desire to contain local fraud, bribery, and abuse of government policies.

In addition to these motives, the government seeks to meet development objectives such as domestic industrial expansion, price stability, conservation of foreign exchange, and economic diversification. Administrative controls are legitimate in every country, and by definition governments are loath to give up those controls that are currently in place. In the case of Kenya, the administrative control system is central to the concept of governance, and ministries and agencies are unwilling to concede any discretionary powers they hold.

Many administrative controls relate directly to current and prospective investments. As a result, these controls limit the operational flexibility of existing firms, and also act as a major disincentive to new ventures. If foreign investors have the option of deciding among a range of countries for new investment sites, they will clearly choose those in which start-up and ongoing operations are easiest and least subject to government interference.

Project Orientation: Due in part to all the factors mentioned above, along with previous advice given to Kenyan authorities on the subject of investment promotion, and the considerable role and impact of donor programs and agencies, the investment promotion orientation of both the

Kenyan government and private sector has been focused almost totally on the preparation and promotion of "projects." A projects approach to investment promotion means that government agencies develop their own ideas for new investments, prepare feasibility studies or profiles, and then seek investors to finance and run the projects. Few if any other countries examined by SRI have placed such an exclusive emphasis on projects.

The rationale for a "project" view of the world is relatively simple. First, the entire system is geared toward preparation of feasibility studies, and their further development into packaged projects (in terms of multiple ownership, financing, and "sponsorship"). The projects approach is reinforced by such groups as the United Nations Industrial Development Organization (UNIDO), which has provided considerable technical assistance to Kenya in the past.

The SRI team has concluded that in the context of the modern international investment climate, the strategy of promoting projects to the exclusion of other efforts simply does not work. In any country, businesses do not want the government to decide what is profitable and what is not, and in fact few serious investors will (or should) accept the results or even data presented in government-sponsored feasibility studies. Feasibility studies by government agencies are expensive and most often end up in dust-covered files. It is the responsibility of firms to conduct such analyses, and in fact this activity represents an important management training technique in most corporations.

Perhaps the most serious problem raised by the project approach is the "opportunity cost" of neglecting to improve the fundamentals of the investment climate. Those government officials charged with promoting investment are better served by directing attention and efforts to removing policy constraints than by promoting projects. Finally, for whatever reason, the project orientation is based on the approach and mental attitudes associated with foreign assistance. It is a "donor-recipient" mentality that accompanies government-sponsored project development. To be sure, responsible private investors do prepare detailed assessments of new ventures, but in most cases these are conceived within the context of an overall business strategy rather than as discrete projects that will succeed or fail on their own. Even though some countries have continued to receive foreign assistance to support preparation of projects, the countries which have been most successful in attracting new investment have been those which have moved toward addressing general policy issues of importance to investors.

B. Recent Promotional Strategies

The investment promotion efforts and strategy of the Kenyan government reached a watershed in the form of a major speech by President Daniel arap Moi in September 1982. In that speech, President Moi announced that basic policy reforms would be initiated to limit the size and role of government, and also to release the energies of the private sector.

The foundations supporting that speech and influencing subsequent activities were based both on new thinking regarding the appropriate private/public sector mix in Kenya's economy, and on prevailing economic realities. The government budget had moved dangerously into deficit, and foreign exchange reserves had been largely depleted. In addition, the positive benefits of import substitution had long since reached their inevitable limits. Finally, the level of new investments had stagnated, and little had been achieved in the way of increasing exports of non-traditional commodities.

In the budget speech for fiscal year 1982/1983, it was announced that public sector participation in commercial activities would be gradually reduced, due in part to the poor or negative returns generated by parastatals in the recent past. However, a complete withdrawal of government participation was neither stated nor considered practical at or since that time. The strategy has shifted from initial participation in any industrial areas deemed important in reaching development objectives, toward participation in strategically important industries, and finally toward those enterprises capable of generating positive returns. Despite considerable public debate and the creation of a Committee on Divestiture, little has been achieved thus far in the divestiture of failing or failed government enterprises, but progress in this area is contemplated in the near future. On the other hand, something of an informal moratorium has been placed on the creation of new parastatal enterprises.

As a corollary to new approaches toward direct government intervention, the government has in recent years initiated and participated in a growing number of discussions on ways in which to improve Kenya's investment climate. Proposals have been made on such issues as streamlining government procedures, clarifying the investment approval process, providing incentives for (or reducing disincentives to) exports, and strengthening domestic capital markets. A certain amount of progress has been achieved in specific areas, but no fundamental changes in policies and procedures have as yet taken place. As a result, while private investors remain somewhat optimistic about the long-run prospects of the investment climate under a new policy framework, most have taken a "wait and see" attitude and have not invested new capital resources in the economy.

C. Government and Private Sector Investment Promotion

Until the creation of the Investment Advisory and Promotion Centre in 1982, the Kenyan government was not actively involved in investment promotion in the narrow definition of "marketing Kenya as a investment site." However, numerous agencies have engaged in promotion in the broader sense of providing assistance to prospective investors. These efforts are described briefly below, and are reviewed in greater detail in Appendix I. The groups involved can be divided into three categories: Development banks and finance companies, government ministries, and private sector organizations.

A considerable number of official development banks and corporations operate in Kenya to provide equity and debt financing for domestic ventures. The origins of the Industrial and Commercial Development Corporation (ICDC) date back to 1954. The ICDC is a public shareholder in nearly sixty firms, of which over half are joint ventures with foreign investors. The ICDC promotes local ownership and joint ventures, and lends funds to small and medium-sized enterprises. Assistance to larger ventures has been provided by the Industrial Development Bank (IDB), a subsidiary of ICDC. The actual investment promotion work of these institutions is in the area of project identification and market analysis. Kenya Industrial Estates (KIE) is another subsidiary of ICDC, and provides factory space and technical assistance to industrial establishments.

The Development Finance Company of Kenya (DFCK) mobilizes both domestic and foreign capital for investment in industrial projects. Raising funds from its international shareholders (development banks), the DFCK channels capital into industrial enterprises. The Small Enterprise Finance Company (SEFCO) is an independent subsidiary of DFCK, and manages a portfolio of loans to small enterprises.

The majority of government-sponsored investment promotion activities historically have been sited within the Ministry of Commerce and Industry. The Industrial Survey and Promotion Centre (ISPC), no longer in existence, conducted sectoral surveys and identified and promoted individual projects. The Industrial Development Department, which had responsibility for project implementation, has also been disbanded, and its functions have been absorbed into the Industrial Promotion Division, which provides a data base on various industrial sectors. The Kenya External Trade Authority (KETA) focuses its efforts on the promotion of Kenya's exports.

Other bodies generally involved in investment promotion include the Ministry of Planning and National Development, which provides information on investment priorities and plays a role in proposing investment incentives. The Ministry of Agriculture and Livestock Development and the Ministry of Tourism and Wildlife identify projects and extend assistance to investors in their respective sectors, as well as manage direct investments in parastatals.

Private sector organizations, such as the Kenya National Chamber of Commerce and Industry and the Kenya Association of Manufacturers play only an indirect role in investment promotion. The former association participates in trade promotion activities, and the latter acts as a collective voice of existing manufacturers in Kenya.

A review of these various efforts indicates that they have been largely oriented toward project identification, development, and financing. It was only with the establishment of the Investment Advisory and Promotion Centre that the government became involved in what are generally known to be standard investment promotion activities.

III. THE INVESTMENT ADVISORY AND PROMOTION CENTRE (IAPC)

A. Origins and Objectives

The Investment Advisory and Promotion Centre was established in principle in the previously-mentioned speech by President Moi on September 21, 1982. In his speech, the President announced the following:

> "the private sector will in future play an increasingly bigger role in development than has been the case in the past -- through both domestic and foreign private investment -- and the Government will do everything in its power to encourage both domestic and foreign investors. In order to do this, I have directed that a new Investment Advisory Centre be established. We do know that potential investors need a focal point in our system which can provide or help to find out necessary information."

The President continued to note that the Centre would be run jointly by the business community and the government. The terms of reference for this new Centre were as follows:

- To promote both domestic and foreign investment.
- To provide advice and assistance to investors.
- To offer information to potential investors.
- To advise Government as to policies and procedures which encourage rather than hinder investment.

In his speech, President Moi acknowledged problems faced by existing and new investors. These included, in his words, ". . . bureaucratic formalities in obtaining approvals for import and export licenses, immigration of expatriates who are considered necessary for the efficient conduct of business, obtaining of land titles and infrastructure such as access roads, telephone, telex, water, power and other services have from time to time proved to be unnecessary obstacles to investment in the past.

The existing procedures will be streamlined, and the Investment Advisory Centre will be given a leading role in this respect."

The IAPC was therefore created to serve as a focal point for indigenous and foreign investors in Kenya. By comparison to similar groups formed in developing countries seeking to encourage new investments, the IAPC was somewhat late entering the scene, particularly with respect to nations in the Far East and Central America and the Caribbean. However, the timing of the IAPC's inauguation was ahead of most African countries and highly appropriate for Kenya itself. It would have been premature at any earlier date, given the state of Kenya's economic and investment policy climate. As it happened, the IAPC was formed at the very moment at which the President announced a new initiative to stimulate private sector investment.

B. Institutional Developments

Following up the President's declaration, the government on November 9, 1982, named the IAPC's first Managing Director, Mr. Maurice Omwonyi, and a Board of Directors. The Board originally consisted of eight representatives from the private sector, and five members from various government ministries. Appointments then and now come from the Office of the President.

The Centre was organized as a semi-autonomous entity within the Ministry of Finance. The placement of the IAPC was based on the conclusion that either the Treasury or the Office of the President indicated the broadest scope for the Centre's activities, since the Centre was charged with promoting investment in all sectors of the economy. An additional, more practical motive was that the IAPC would find it easier to secure an operational budget if housed within either of these two bodies.

The Centre received its first proper budget in July, 1983, providing for approximately 10 professionals, a staff size that has never been reached. The first senior staff members were recruited in mid-1983 and joined the IAPC later in the year.

The IAPC's initial programmatic emphasis, based on the strategy of the Managing Director, was oriented toward the promotion of individual investment projects. Some of these projects had originated in other agencies. The Centre's staff also sought to provide information and advice to individual investors. The staff also attempted to determine a list of investment areas to stress (e.g., agribusinesses, import substitutes, etc.), and to develop an understanding of the complex investment authorization system paying special attention to bottlenecks in that system.

Unfortunately, the Centre not only lacked sufficient staff to effectively assist investors but also faced considerable policy constraints in its pursuit of individual projects. While a select number of projects on which the IAPC actively assisted investors came to fruition, in most cases the Centre's efforts were undermined by process and policy related deterrents.

The IAPC's leadership changed in early 1984, when Mr. Omwanyi was succeeded by Mr. Adam Ali, the current Managing Director. Along with this change in leadership came a shift in the Centre's program emphasis, away from the promotion of projects and toward efforts to improve the investment policy framework. This new initiative was based on the premise that unless and until the structure and administration of investment-related policies were improved, major inflows of new investment into Kenya would be highly unlikely. In short, efforts and expenditures aimed at promotion in the sense of "marketing" Kenya as an investment site would be premature.

Over the past year, the Centre has been engaged in a number of ongoing activities that can be categorized as "policy dialogue" on issues relating to investment. The Centre's professionals have prepared formal and informal statements regarding policy constraints to investment and have suggested potential measures to ease those constraints. The Centre has sought to act as a voice of the investment community in its efforts to advise the Kenyan government. By necessity, many of these efforts have been undertaken on a quiet basis rather than in public forums, given the sensitivity of the matters under discussion. In a large sense, the Centre has focused on its role to "advise Government as to policies and procedures which encourage rather than hinder investment," as spelled out in the President's initial terms of reference.

C. Current Structure and Operations

The IAPC now consists of five professional staff members, including the Managing Director, an Advisor to the Director, an Investment Promotion Manager, a Projects Manager, and an Assistant Manager for Finance and Administration. The Centre has a support staff of nine individuals.

The IAPC's current Board of Directors are the following:

1. Mr. H.M. Mule, Permanent Secretary, Ministry of Finance -- Chairman
2. Mr. J. Githuku, Permanent Secretary, Ministry of Planning and National Development
3. Mr. Namu, Permanent Secretary, Ministry of Commerce and Industry
4. Mr. Philip Ndegwa, Governor, Central Bank of Kenya
5. A representative from the Office of the President
6. Mr. R. McDermott, Senior Executive Director, Standard Bank, Ltd.
7. Mr. M.H. Reid, Representative, East Africa Association
8. Mr. John Silvester, Partner, Hamilton Harrison and Mathews, Advocates
9. Mr. Francis Macharia, Chairman, Kenya National Chamber of Commerce and Industry
10. Mr. Manu Chandaria, Kenya Alluminium/Comcraft Services
11. Mr. Adam Ali, Managing Director, IAPC

Several changes are anticipated, as a result of reassignment of some of the GOK members and retirement of one of the private-sector members. The number of individuals on the Board has declined from 13 to 11, due to the resignation of two private sector members who left for personal reasons. These positions can be refilled if nominations are presented by the Office of the President.

At present, the IACP's stated functions are the following:

- Arrange contacts between suitable local and overseas investors
- Keep close contact with all development finance institutions
- Collect information from other countries on investment rules, incentives and reception procedures
- Advise the government on changes needed in the investment laws and incentives to attract capital for suitable projects
- Prepare and issue explanatory literature for guidance to investors
- Arrange promotional activities such as investment workshops, investment missions, etc. to attract investment from overseas
- Ensure that Kenya's diplomatic representatives overseas are fully briefed and supplied with all necessary literature and information on investment projects and investment procedures
- Provide advice to investors and offer recommendations to the government on wider topics affecting the investment climate, e.g., interest rates, credit, employment legislation, infrastructure, taxation, etc.

The Centre has in fact carried out activities in each of the above-listed categories. However, the bulk of its activities have been allocated to advising the government on appropriate policy changes (e.g., streamlining the approval process, reforming tariff policy, reducing adminstrative controls, etc.), and on assisting individual investors work their way through the approval system. As a consequence of both of these activities, the Centre's professionals have spent considerable levels of effort in researching and stating the nature and degree of investment policy constraints.

Given the limited staff resources of the IAPC and its current emphasis on dealing with policy issues, few activities have been undertaken on what are known as "standard" investment promotion activities. These include the preparation of promotional literature and sectoral studies; marketing through seminars, advertising, investment missions, direct mail solicitations; and other marketing techniques. However, in the judgement of the project team, such expenditures would have been premature in any case. Thus, it is the view of the SRI project team, that the IAPC has appropriately allocated its scarce resources toward efforts to encourage necessary changes in the policy framework.

The IAPC has however undertaken several promotional (or pre-promotional) activities that do merit attention.

- The IACP staff provided briefings to Ambassadors and commercial officers in Kenya's overseas embassies on techniques to provide assistance and information to prospective foreign investors.
- The Centre has placed a number of advertisements in foreign and regional publications, including New Africa, African Review, African Business, the Observer and the Guardian. In addition, staff members have begun to investigate other appropriate publications for particular targeted audiences.
- The staff has cooperated with and developed good working relations with the producers of Business Facts (a publication on Kenya's business climate sponsored by the Office of the President).
- Professional staff members participate in as many meetings as possible on Kenya's investment climate and means of improving it.
- The Centre has surveyed local business leaders on investment issues.
- Staff professionals are in the process of drafting an "Investor's Guide to Kenya."

D. Strategies and Future Directions

The SRI project team's general evaluation of the IAPC is that the Centre has for the most part evolved and allocated its staff resources appropriately. After focusing initially on project promotion, the IAPC has shifted its emphasis toward efforts to improve the policy environment. On the one hand, the Centre has not undertaken much in the way of actual investment promotion (in the standard use of the term), although ad hoc promotion has taken place. On the other hand, the Centre has not wasted financial and manpower resources (as many promotion agencies have) in promoting investment at a time when little can be expected. The typical experience is that new promotion groups prematurely jump into advertising and marketing (both of which are very expensive), only to discover that there are little if any returns on their investment.

The observations offered below should not be viewed as recommendations in the formal sense, since each should be reviewed for utility and consistency in the Kenyan context. As with investment climates themselves, promotional groups and programs should be crafted to meet the specific situations, needs and opportunities present in each country. The organizational and programmatic options presented are based first on the project team's evaluation of Kenya's investment climate and the IAPC, and second on the experience of other countries studied by the SRI project team. Where possible and appropriate, references will be made to the successes and mistakes made by other countries actively attempting to promote private sector investment.

Institutional Options/Strategies

1. Investment promotion organizations play a unique role as an "ombudsman" between the private sector and the government. It is important that groups such as the IAPC have a high degree of independence of attitude and action. In addition, while a promotion organization should be financed by government, since it offers a public service available to all investors, it should be viewed as bridging the interests of the public and private sectors. Investment promotion in Egypt, for example, is carried out by a

large government organization viewed by investors as yet another layer of bureaucracy. The project team strongly suggests that the legislation officially authorizing the IAPC (The Investment Advisory and Promotion Centre Act) be passed. This would provide a signal to the business community that the Kenyan government is indeed serious about improving the investment climate. The Centre should seek to engage Kenya's business community in its activities, particularly in areas such as the preparation of promotional materials, participation in investment seminars, and meetings with prospective investors.

In addition to carrying out its normal responsibilities of governing and advising the Centre, the Board of Directors can and should play an active role in supporting the Centre's goals. That is, the GOK members should advise their ministries/agencies on possible policy reforms, and private sector members should establish communications with business leaders. The Board is in a unique position to contribute to appropriate initiatives on public/ private sector collaboration.

2. The position of the IAPC within the government should guarantee the perception that the Centre serves investors in all sectors. In addition, the Centre needs a high degree of cooperation and good working relations with all relevant ministries (e.g., Planning and National Development, Commerce and Industry, Finance, Tourism and Wildlife, etc.) as well as with other GOK bodies such as the Central Bank. As such, the most logical site for the Centre from the standpoint of efficacy would be within the Office of the President, which is charged with, among other things, policy coordination among different government bodies. This would be the equivalent to the situation in Ireland, where the Industrial Development Authority reports directly to the Head of State. However, there are ample cases of successful structures in which promotion groups have been sited in line ministries. In Kenya, the most likely candidates would be the Ministry of Finance or the Ministry of Planning and National Development both of which encompasse all economic sectors and have developed good working relationships with the IAPC up to this point. Whatever structure is determined, it is imperative that the Centre not be viewed as a mere

extension of it's parent agency, lest inter-ministerial conflicts limit the Centre's effectiveness.

3. The Centre's staff size has been barely adequate to manage even a modest level of promotional activities. Based on the functional options outlined below, the project team suggests that the size of the professional staff be approximately doubled over the next year to eighteen months. SRI has never before encountered a promotion center with such a small professional staff. While many countries (e.g., Egypt, Jamaica, etc.) have developed excessively bloated promotional organizations, and SRI has recommended that such groups be "lean and professional," a certain critical mass is necessary to conduct any kind of effective policy dialogue and promotional activity.

The Centre does not simply need additional staff members, but rather well-trained and experienced professionals who are capable of speaking the same language as potential investors. This implies some form of business experience and/or previous business school training. To the extent possible, at least half of new professionals should be recruited from the private sector. It also means that salaries would have to be adequately high to attract appropriate individuals. This does not suggest that salary structures need be comparable to private sector rates, but rather that the parastatal category of the Centre (currently "F") should be raised to accommodate recruitment objectives. This holds true for support staff as well as professionals. The project team feels that qualified individuals are available in Kenya, and can be recruited if adequate compensation is provided.

4. The project team suggests that as the Centre moves into its active investment promotion phase, its office space should be refurbished. Such renovations need not be opulent, and in fact should be tastefully modest. However, a promotion center is often the first stop of potential investors, and so the ambience should reflect not only the professionalism of the center but also the basic health of the investment climate. Waiting rooms should be stocked with informational brochures, and prospective investors should be treated courteously and professionally.

5. A much more pressing problem than office refurbishment is an almost total lack of necessary office equipment. An organization that serves both as a private/public sector ombudsman and as a promotion agency needs -- at a minimum -- the business equipment required to prepare and disseminate reports and information to investors. The Centre badly needs a photocopy machine, and could make very good use of word processors. Over time, as the IAPC's work as an information center grows, it should also have on hand a microcomputer to contain active data files (mailing distribution lists, budgets, lists of corporate initiatives in Kenya, files on prospective investors and where they stand in the approval process, data on macroeconomic trends and sectoral opportunities, etc.). As such, it would be preferable for the acquisition of a word processor to be made in tandem with that of a small computer, to assure that the systems are compatible. This would reduce costs in the long run. At the time of acquisition, however, the IAPC should have on the staff a professional who is qualified and experienced in using computers.

6. As the Centre develops, the SRI team suggests that the following organizational structure be considered as a manifestation of the functions it will carry out. The project team recognizes the need to avoid organizational rigidities and to shape the structure to the character of the group's objectives and staff. With this caveat in mind, such a structure would consist of the following components:

A. Office of the Managing Director: This office would oversee the activities of the Centre, carry out liaison with government ministries and the private sector, and lead "policy dialogue" initiatives.

B. Information and Research Office: This office would be charged with developing background information on the investment climate, preparing promotional material (in concert with other offices), carry out sectoral surveys, maintain a small reference library, and act as a substantive backstop to other offices.

C. Investment Promotion Office: This office would organize promotional activities (e.g., seminars, advertisement campaigns, investment missions, etc.), develop a system for recording and following investment leads (no formal system now exists), and participate in local and overseas meetings on investment issues. In close coordination with the Office of the Managing Director, this office would also carry out the Centre's public relations program (with local and international press, academia, business groups, etc.)

D. Investor Services Office: This office would provide assistance and advice to investors once an initial commitment has been made to proceed. The office would arrange meetings between potential investors and local public and private sector officials, counsel investors on required submissions and approvals, work as a "trouble-shooter" to unsnag red tape and reduce delays, and provide initial follow-up assistance after firms have been established.

E. Finance, Administration and Management Office: This office would develop and administer controls over expenditures, assist in staff recruitment, prepare budgets, procure supplies, and oversee the work of the Centre's support staff. This unit also would act as office manager.

All of these functions are being carried out by the current staff, which has demonstrated a willingness and ability to remain flexible, a strongly desirable trait in small organizations. In some promotion organizations (e.g., in Jamaica), lack of flexibility has led to bureaucratic rigidities and rivalries. While maintaining an appropriate degree of flexibility in organizational and staff responsibilities is desirable, the project team has observed elsewhere that the definition of primary functional responsibilities and the establishment of a general management plan helps organizations such as the IAPC to structure their roles, objectives and activities more effectively. A formal organization plan also helps to present the organization's raison d'etre to outside groups.

7. The project team strongly feels that the Centre should continue its efforts, successful to date, to develop closer working relations with relevant line ministries. The Centre suffered initially from confusion

regarding its role, especially whether or not the Centre would assume powers and responsibilities residing in other bodies. These problems have largely been resolved, although there remains a certain residue of wariness. The IAPC should be seen as instrument serving the Kenyan government's interests (by expanding productive investment), as well as those of potential investors. As such, it requires the good will and assistance of the ministries it serves. That is, inter-ministerial cooperation is necessary both to implement policy reforms and to conduct day-to-day investment policy administration effectively.

Programmatic Options/Strategies

1. Following the advice that "one should seek to improve the product before trying to sell it," the Centre has recently focused on efforts to engage in policy dialogue to achieve a more attractive investment policy climate. In addition, the IAPC's first years have been devoted to the task of institutional development. To place past and future activities into a temporal framework, one can say that the Centre is still in a phase of Institutional and Product Development. This phase should last for another six months or so, as tangible results on the policy front are achieved, and as the IAPC prepares for its next stage, a Pre-Promotional Phase. Lasting about one year, this phase would concentrate on putting into place an active investment promotion capability and plan. Following this, an Active Promotion Phase would be initiated, during which formal promotional activities would commence. These phases are designed to accommodate timing required to complete required first steps, but also to take advantage of an anticipated improvement in the international investment climate. The activities suggested for each phase are described below. Clearly, certain overlaps exist and in fact are desirable, as is accelerated progress in particular categories.

Institutional and Product Development Phase: During this period, most of the institutional actions noted previously should been completed. The Act officially authorizing the IAPC should be enacted into law, suggested materials and supplies should be obtained, and staff recruitment should begin. Functional activities should include the following:

2. The IAPC should continue its policy dialogue work, but shift staff efforts from active investor assistance to laying the foundations for eventual promotion, particularly in the form of information gathering and research. The Centre should continue to respond to incoming investor inquiries, but would not yet be in a position to provide comprehensive investor services.

3. The IAPC should continue to prepare an Investor's Guidebook, and should be assisted with outside financial and professional resources on this task. This assistance might be funded by donors or sought on a gratis basis from Kenyan law firms, accountancy houses, etc. During the preparation of the Guidebook, due consideration should be given to eventual target audiences to assure that the material reflects the interests of key sectors identified.

4. The Centre should begin a formal process of collecting information and materials from government agencies and private sector sources, and develop a data bank and reference room.

5. The IAPC should foster and/or sponsor a series of seminars with government ministries and private sector groups on the subjects of the legitimate role of the private sector in development, and alternative strategies for promoting private enterprise in Kenya. This activity, which should continue into the next phase, should seek to gain broader support for promotion efforts.

6. The Centre should design a system for tracking the progress of individual investment prospects during the promotional and approval stages. Categories could include the following: Initial investor contacts, IAPC follow up, personal meetings with investors, site visits, applications in process, applications filed with relevant agencies, preliminary approval, final approval, and investment implementation. The system would indicate where prospects stand in the process, and indicate points of possible intervention and/or assistance by the IAPC.

7. As a corollary to suggestion #6, the IAPC should design and implement a system to generate and maintain aggregrate figures on investor interest generated as a result of various promotional techniques.

8. The IAPC should determine a series of specific promotional goals with end objectives such as number of new jobs, new investment capital, or foreign exchange brought in, etc. as well as interim objectives, such as number of investors contacted, number of investment applications, number of actual approvals, etc. Ultimately this is the only way in which the Centre's performance can be evaluated. These initial goals would by definition be no more than educated guesses, and should be kept modest in view of the long gestation period associated with new investments. Furthermore, these targets should be kept privately by the Centre rather than publicized. The premature release of ambitious performance targets in such countries as Jamaica has resulted in adverse publicity and the need to develop "creative" statistics such as "potential jobs" created.

Pre-Promotion Phase: During this period, the Centre would begin the serious design of a promotion strategy and program, and would acquire the appropriate facilities, budget and staff. At this time, the Centre should reduce its role in pursuing policy reform, in order to allocate scarce resources to the priority mission of investment promotion and investor assistance.

9. Upon completion of the investment guidebook, the IAPC would design and participate in a modest overseas campaign (most likely in the form of official trips by high level government officials) in North America, Europe and the Far East. The objective would not be formal promotion but rather to "position" Kenya in the minds of prospective investors as an attractive "new" site for investments.

10. Within Kenya, in accordance with suggestion #5, the Centre should engage on an informal basis the press and academic communities to develop a better understanding of the importance of private investment. The press in Kenya often reports unsubstantiated charges made by academicians or political figures about the illegal or extra-legal activities of private

and foreign investors. A strong free press should always be supported. However, in countries such as Egypt and India, SRI has found that the press has stimulated hostility to private and/or foreign investment through biased or inaccurate reporting. Greater understanding of Kenya's investment needs and objectives could help lead to more responsible reporting.

11. To continue its work on the policy framework (and hopefully build upon initiatives already under way), the Centre could organize informal meetings of middle-level government officials and members of the business community on the subject of very specific policy matters (e.g., export compensation procedures, inspections, price determinations, etc.) on which gradual improvements can be made. This would be an effort to engage the private and public sectors on small concrete problems. Discussions such as these have proved very fruitful in Panama and Taiwan.

12. The Centre should develop and distribute a series of promotional materials. These should include an attractive introduction to Kenya and its investment climate (10-20 pages, glossy, with photographs and general economic/investment material); a more formal, less glossy investment guidebook; and a series of inserts on specific sectors. The promotional material must be designed, written and produced with a high degree of professionalism. Many promotion efforts are damaged severely by illogical presentations, poor translations and poor-quality publication. Another major consideration is to make sure sufficient copies and re-print options are guaranteed from the outset. The SRI team has encountered numerous situations where attractive promotional materials have been produced in limited quantities, and so run quickly out of print. The preparation of more advanced promotional materials such as films strips, slide presentations, videocassettes, and other audio-visual aides is at this time premature, but should be considered after initial progress has been reviewed.

13. To prepare Kenya's foreign commercial officers and other overseas officials as the first line of introduction to prospective foreign investors, the Centre should develop a one-day training module for these

individuals for implementation on their normal rotations or home leaves. This module would include an introduction to the Centre and its staff, a briefing on investment promotion techniques and materials, and methods for future communication and follow-up on investment leads.

14. In connection with option #13, the Centre should design an appropriate referral system to provide potential investors with initial information, and to pass on inquiries to the appropriate parties at the Centre. At this stage, it is probably appropriate to utilize individuals already in the field, rather than expend additional funds and personnel for new overseas branches.

15. The Centre should, in coordination with the relevant ministries, reach a determination as to the sectors which exhibit the greatest potential attractiveness to potential investors, along with sectors deemed to be of greatest strategic interest to Kenya. Once this determination has been made, the Centre should undertake the development of initial sectoral assessments. These would not be formal feasibility studies, which should be left to the investors, but rather "pre-feasibility evaluations."

16. The final step to be undertaken during this period should be the design of a formal marketing strategy to promote investment in Kenya. This would include industry targets, forms of marketing, allocation of resources, and formal budgets.

<u>Active Promotional Phase:</u> Once the preparatory pieces have been put into place, the Centre could begin to implement an active promotion program, consisting of the following:

17. The Centre should conduct a formal advertising and media campaign in carefully selected markets. In addition to actual advertisements (which are very expensive), the staff should provide briefings to the foreign press and invite influential business press reporters to visit Kenya for intensive field visits.

18. The IAPC should organize or participate in foreign investment missions, hopefully coinciding with foreign travel by high level Kenyan officials. Kenyan business executives should also be enlisted to meet with investment candidates during overseas trips.

19. The Centre should at this time engage in an aggressive in-Kenya campaign to stimulate domestic investment, hopefully benefiting from new incentives developed for small and medium enterprise, agribusinesses, exporters, etc. In short, the Centre would duplicate at home what it was conducting overseas, to assure domestic investors that the Centre's goals were not limited to foreign investment.

20. During the phase of active promotion, the Centre should carefully monitor achievements and shortfalls. For example, detachable stubs would be provided on media advertisements for those interested in additional information. Alternatively, inquiries could be directed to specially-designated post office boxes, thereby allowing IAPC staff members to calculate levels of interest generated through different forms of marketing. In this way, methods with poor results can be improved or discontinued, whereas the use of successful techniques can be expanded.

21. Finally, after some marketing and promotion experience has been gained, the IAPC should begin to consider the merits of expanding its operations to include branch operations. For example, a Centre representative in Mombasa might be useful if sufficient interest is generated on in-bond production or export processing. In addition, new overseas offices might eventually be established and existing offices be brought under the direct control of the IAPC. Since overseas offices are very expensive, the possibility of an expanded branch network requires careful consideration and testing.

IV. RECOMMENDATIONS FOR DONOR ASSISTANCE

The international donor community can contribute to the IAPC's efforts to promote investment in Kenya both by supporting the Centre's efforts to improve the investment climate and through provision of direct financial and technical assistance to support the Centre's activities. It is important that such donor funding be provided as a supplement to, rather than as substitute for, GOK resources. The IAPC has an important role to play, both within government and as an advocate of the views of the private sector. Given the delicacy of this role, it is critical that the Centre not be viewed as an "arm" of any one group, whether it be the government, particular business interests, or donors.

The level and scope of donor assistance to the Centre should also be consistent with the phased institutional and programmatic development approach suggested above. In keeping with this orientation, we will present recommendations for short-term, medium-term, and long-term assistance to the Centre.

A. Short-Term Assistance Options

The orientation of the Centre over the next six months should be focused on improving its institutional capabilities, and on continuing its efforts to push for improvements in the investment policy climate. Two types of donor support could be valuable in this respect. First, donors should continue to support policy reform efforts through their structural adjustment assistance. The project team found strong evidence of a recognition among Kenya's top political leadership of the need to implement policy reforms aimed at improving the investment climate. Donors could support these efforts through targeted adjustment assistance.

For example, the government recognizes that import duties on machinery and other capital equipment are a major investment disincentive, particularly to export industries. However, these duties are seen as a major source of government revenue. The project team was not able to determine the exact revenue loss that would be associated with the removal of these tariffs, but they are believed to represent about 4 percent of total GOK revenue. One or more donors could join together to guarantee the government that they would make up for all or part of this revenue loss over a period of 3-5 years if these tariffs are reduced or eliminated. This assistance would provide some "breathing room" in which to demonstrate the efficacy of an export orientation.

In terms of specific assistance to the IAPC, donor assistance could help to meet some of the Centre's immediate institutional needs. As discussed above, the Centre is badly in need of basic office equipment such as a copy machine and word processor(s). Another area of high priority for short-term support is the completion and publication of the investor guidebook. The Centre currently has no good promotional material available to disseminate to prospective investors. Donors could provide technical assistance to support completion of the guidebook, and could cover all or part of the costs of publication. It is important that the final product be both professional and attractive. Later on, donor support for production of additional promotional literature would be appropriate.

Another area of short-term donor support is the establishment of a knowledge base, in Kenya, of what investment promotion really involves. The project team has been struck by the lack of current understanding -- within the business community and in certain government agencies -- of what investment promotion is and is not. The Centre's staff can serve to fill this gap of understanding. This situation could also be improved (a) by funding visits to countries with successful promotion programs (e.g., Ireland, Taiwan, Singapore, and Panama) and reporting these experiences to Kenyan audiences, and (b) by funding seminars, for both government and private sector officials, on investment promotion fundamentals and techniques. These seminars could be sponsored by the IAPC, with presentations by IAPC professionals and by outside experts who have experience with investment promotion in other countries.

B. Medium-Term Funding Options

During the "pre-promotion" phase described above, donor technical assistance could be provided to support the Centre in (a) the design of a referral system for investor inquiries, in which leads are passed quickly to the Centre from outside sources, (b) the preparation of sectoral surveys, and (c) the development of a data base and library on Kenya's economic structure and investment opportunities. The preparation and maintenance of this data base would be greatly facilitated if it would be placed on a microcomputer. Much of the data currently available on Kenya's industrial structure is already available in a form suitable for computerization. A computer would also be useful for marketing purposes (e.g., maintaining mailing lists, tracking investor inquiries, etc.)

Donors could also serve as a resource to the Centre in its organization of policy-specific seminars by identifying and providing experts with knowledge of previously-tested, workable solutions to the policy issues to be discussed.

C. Long-Term Funding Options

As the Centre begins to move into its active promotion stage, donor assistance on a comprehensive rather than ad hoc basis will be appropriate. Such assistance might be provided through a discrete project, or as part of an integrated private enterprise development support effort. Within the terms of a longer-term project, funding of one or more technical advisors would be appropriate. The IAPC currently has one donor-funded advisor whose contract runs through the end of 1986. The SRI project team believes that the current advisor has been a valuable addition to the IAPC's permanent staff, and that long-term advisory support of equivalent calibre should continue to be made available to the Centre.

The long-term assistance program should support the Centre in becoming a viable, active promotion organization. This implies support of development of promotional and advertising materials, provision of vehicles and additional office machinery and equipment, support of local and overseas promotion seminars, and in-service training of the IAPC staff.

Appendix A

LIST OF INDIVIDUALS INTERVIEWED*

USAID/Kenya

Gordon Bertolin

Charles Gladson, Director

Richard Green

Justus Omolo

Elisabeth Rhyne

Raymond Rifenburg

Individuals Located in the United States

Mr. N.B. Macharia, Kenya Investment Promotion Office, New York

Gary H. Maybarduk, Economic Advisor, Bureau of African Affairs, U.S. Department of State

James Mudge, AID, PPC Bureau

Bud Munson, AID, Africa Bureau

Michael Sergon, First Secretary (Commercial), Kenya Embassy, Washington, D.C.

Brad Swanson, Desk Officer for Kenya and Uganda, U.S. Department of State

Government of Kenya

Mr. A.H. Ali, Managing Director, Investment Advisory and Promotion Centre

Mr. R.K. Bhatia, Advisor, Investment Advisory and Promotion Centre

Mr. Gichangi, Deputy Permanent Secretary, Ministry of Tourism and Wildlife

Mr. J.M. Gitau, Deputy Permanent Secretary, Ministry of Commerce and Industry

Mr. W. Kisiero, Assistant Minister, Ministry of Commerce and Industry

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* Listed in alphabetical order.

Mr. D.N. Namu, Permanent Secretary, Ministry of Commerce and Industry

Mr. G.G. Ng'ang'a, Investment Promotion Manager, Investment Advisory and Promotion Centre

Mr. Njonge, Director, Investment Division, Central Bank of Kenya

Mr. S. Nyachae, Chief Secretary, Office of the President

Mr. B.K. Nzioki, Projects Manager, Investment Advisory and Promotion Centre

Dr. Robert J. Ouko, Minister of Planning and National Development

Dr. Michael Roemer, Senior Advisor, Ministry of Planning and National Development

Professor George Saitoti, Minister of Finance

Dr. A.B. Tench, Senior Economic Advisor, Office of the President

Mr. Charles N. Waigi, Public Relations Manager, Industrial and Commerical Development Corporation

Private Sector

Mr. Manu Chandaria, Chairman, Comcroft Services, Ltd.

Mr. D.K. Darango, Managing Director, Kenya Threads Industry, Ltd.

Mr. S.J. Fabian, Managing Director, Firestone

Mr. Karanja Kabage, Managing Director, Kabage and Associates, Ltd.

Mr. Leonard Kibinge, Chairman, Business Consultants, Ltd.

Mr. F.N. Macharia, Chief Executive Officer, Kenya National Chamber of Commerce and Industry

Mr. D.G. Moko, General Manager, Capital Finance, Ltd.

Mr. K. Mwendia, Chief Accountant, B.A.T. Ltd.

Mr. John N. Otido, Secretary, Kenya Association of Manufacturers

Mr. John D.M. Silvester, Hamilton Harrison & Mathews, Advocates

Mr. James Taylor, Deputy Managing Director, Farmers Choice Ltd.

Mr. S. Waruhiu, Advocate, Barkley's Bank

Mr. William Wood, Managing Director, Nationwide Finance Company, Ltd.

Others

Mr. James Adams, Resident Representative, World Bank

Mr. James M. Wilson, Commercial Attache, Embassy of the United States of America

Appendix B

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Appendix C

GOVERNMENT AND PRIVATE ORGANIZATIONS INVOLVED IN INVESTMENT PROMOTION

GOVERNMENT INVOLVEMENT

A. The Industrial and Commercial Development Corporation (ICDC)

The Industrial Development Corporation, as ICDC was originally known, was established by an Act of Parliament (The Industrial Development Act) in 1954 "to facilitate the industrial and economic development of the Colony by the initiation, assistance, or expansion of industrial, commercial or other undertakings or enterprises in the Colony or elsewhere."

After National Independence in 1963, the Corporation was reformed, in structure and in policy orientation, to fulfill the aspirations and needs of the new nation more effectively. Its wider terms of reference included: (a) the encouragement of the participation of nationals in industry and trade; (b) the initiation of direct investments in commercial and industrial enterprises on behalf of government; and (c) the encouragement and negotiation of joint ventures with foreign and local private investors on behalf of government. The Import Licensing Act of 1965 and the Trade Licensing Act of 1967 provided the legal framework for the implementation of these objectives. In 1967 the name of the organization was changed to Industrial and Commercial Development Corporation (ICDC) to reflect its broader role in the economy.

ICDC is a public company and a statutory body. Its policies are formulated, and their implementation is supervised, by a Board of ten directors appointed by the Minister for Commerce and Industry in accordance with the Industrial Development Act. The Minister of Commerce and Industry has de facto power over the Board and therefore over the lending and investment policies of the Corporation.

In June 1984, total assets of the Corporation (equity, loans and fixed assets) totalled Kshs.1.2 billion (about U.S. $76 million at the current exchange rate), and it had shareholdings in fifty-nine subsidiaries and associated companies which represented involvement in almost every area of enterprise: textiles, sugar, finance, hotels and tourism, plastics, properties, and mining and chemicals. Of these enterprises, 32 were joint ventures with foreign investors from Britain (8), United States (4), Japan (4), West Germany (5), Yugoslavia (2), Poland (1), Italy (2), Israel (2), and the Netherlands (1). The Corporation's funding during the last fiscal year was 65 percent in Kenya Government Funds, 20 percent in Capital and Revenue Reserves, 8 percent in D.E.G. (Deutsche Gesellschaft fur Wirtschaftliche) loans, and 7 percent in local bank loans. The ICDC has a headquarters staff of 330 people, but subsidiary and associated companies employment numbers in the thousands. Top management includes an executive director, a corporation secretary, a financial controller, a chief industrial manager, and a management services manager. The Corporation is an investor in a number of other financial institutions, e.g., the Industrial Development Bank (13% shareholding), the Development Finance Company of Kenya (30% shareholding) and the Kenya Industrial Estates (wholly-owned subsidiary).

ICDC's most active roles in the latter 1960s and throughout the 1970s was in lending mainly to small-scale and medium-scale enterprises. It also engaged in the negotiation of joint ventures with local and foreign, private and public investors. However, during the last four years, the Corporation has been faced with major problems in the operation of its enterprises, which when coupled to a recent "credit squeeze" within the Corporation, have resulted in a shift of emphasis. The Corporation is now more involved in the rehabilitation of its large-scale projects such as Rivatex, Yuken, Synthetic Fibres (textiles), Dawanol (Pharmaceuticals), and Kenya Drilling (Water Development). The main work program of the Corporation today mainly involves the financial restructuring and management streamlining of subsidiary and associated enterprises in a bid to improve their performance.

In the area of investment promotion, a section within the Industrial Department still conducts project identification and appraisal work on new projects, and management indicates that the Corporation is still receptive to ideas from private investors seeking financing or joint participation with Kenyans. The Corporation is also promoting joint participation with local and foreign investors, though probably not as actively as before. For example, the Corporation is now seeking partners for a medium-scale fruit juice processing plant planned at the coast and for a bottling plant at Kisumu.

B. The Development Finance Company of Kenya (DFCK)

DFCK was originally incorporated in September 1963 with an authorized share capital of Kshs. 4 million, and was designed to be an internationally-based financial institution. Local, foreign and international financial organizations and agencies participate in equity holdings. The current shareholders are the Industrial and Commercial Development Corporation (ICDC) - (30.3 percent), the Commonwealth Development Corporation; (CDC) - (10.1 percent); the German Development Company for Investments in Developing Countries (DEG) - (29.3 percent), the Netherlands Finance Company for Developing Countries (FMO) - (20.2 percent); and the International Finance Corporation (IFC) - (10.1 percent).

The Company's authorized share-capital is Kshs.120 million of which Kshs.99 million was paid up by fiscal year 1984. The principal aim of the organization is to serve as a bank through which foreign governments and financial organizations could channel funds for setting up industrial projects in Kenya. Today, DFCK's total investments, in equity and loans, total some Kshs.700 million. Its major role in the promotion of investments in Kenya has been the mobilization of both foreign and local financial resources for industrial development.

DFCK's main areas of operation are in agricultural processing, food and beverages; chemicals and pharmaceuticals; engineering and construction; leather and leather products; metallic and plastic products; paper products and printing; textiles, tourism, vehicles and components; and wood, wood products and furniture. Major efforts are directed towards the establishment of new enterprises rather than the rejuvenation of old ventures. Investments take the form of medium or long-term loans, equity finance, or both equity and loans depending on the specific needs of the investment project. The Company's present and future strategy places emphasis on those new projects which are export-oriented and which depend on locally-available raw materials. DFCK management also maintains as an operational policy, and shareholders require, that each investment must be conducted on the basis of sound commercial principles and that satisfactory and acceptable returns on invested funds must be achieved in each project. Therefore the Company, which has a highly qualified and competent professional staff, always conducts a rigorous economic and financial appraisal of each project before the investment is undertaken.

DFCK has summarized the principle guidelines of its investments policy as follows:

(1) The project selected for investments must satisfy DFCK's criteria for economic and financial viability.

(2) The project must have the potential of contributing to the economic development of Kenya by, among other things - generating or conserving foreign exchange, providing employment and utilizing local raw materials.

(3) Financial assistance shall normally be restricted to those enterprises where new productive assets are to be created. DFCK shall not engage in the refinancing of existing projects, transfer of existing assets or in purely commercial enterprises.

(4) Competent management of a project must be assured. Project plans should include comprehensive training of Kenyans for advancement at all levels.

(5) DFCK must be satisfied as to the method of procurement of machinery, equipment and services as well as to the suitability of factory buildings and other infrastructural facilities.

(6) Finance shall be considered only for private or public limited companies and not to individuals, partnerships or proprietorships.

(7) Investments shall normally be in the form of term loans or equity capital depending on the specific requirements of a project.

(8) Project sponsors must provide security in the manner and extent required by DFCK but will not, in value terms, be less than one and a half times the loan sought from DFCK.

(9) DFCK's normal range of investment in any one new project shall be between Kshs. 400,000 and Kshs. 16 million. In exceptional cases, especially in profitable projects with high development value, the company may, however, invest up to Kshs. 20 million.

(10) Project sponsors shall normally be expected to provide a substantial portion of the total investment cost of the project which shall not be less than 25 percent.

(11) DFCK shall not under normal circumstances take a controlling interest in a project. Its participation shall not exceed 50 percent of the total investment cost of a project. In exceptional cases the Company's participation may be increased to an upper limit of 60 percent.

(12) In all cases, financial assistance shall be considered only for those projects whose objectives are well within general government policy."

C. Small Enterprise Finance Company (SEFCO)

SEFCO was originally established in 1978 as a department of DFCK. Funding for its operations was provided by the Dutch foreign aid agency. The purpose of the department was to provide financing for industrial ventures too small to be handled through DFCK's normal financing procedures. During its initial years of operation, the unit reportedly suffered from the lack of a clear policy with respect to objectives and targeted beneficiaries. There was also no organized plan for technical and managerial assistance to borrowers. The functioning of the unit was improved by the creation of an associated business advisory service in 1980.

In January 1984, SEFCO was established as an independent subsidiary of DFCK. DFCK's small-business loan portfolio, i.e., those loans originally extended through the Small Enterprise Finance Department, were transferred to the new subsidiary. SEFCO's shareholders include DFCK, the Dutch Development Bank, and the German Aid Agency.

SEFCO's current portfolio includes about 65 loans totalling 32 million Kenyan shillings. Loans are extended at market rates at terms of up to eight years, with a two-year grace period. SEFCO is one of the few institutions in Kenya that offers unsecured financing to small enterprises.

Financing is made available to small industrial and service enterprises. Examples of current loan recipients include posho (grain milling) enterprises, manufacturers of basic agricultural implements, dry cleaning enterprises, a bakery, repair shops, a small printing operation, and a number of carpentry operations.

A portion of SEFCO's lending capital is reserved for financing of informal sector enterprises through credit associations. The maximum loan values is 5,000 shillings. SEFCO has recently set up a program, in association with Barclays Bank, to provide working capital financing to small enterprises. The loans are guaranteed up to 75 percent by SEFCO. To date, SEFCO's administrative costs, as a percentage of loans outstanding, have been well below those of other institutions providing financing to small enterprises.

D. The Industrial Development Bank (IDB)

The IDB was created as a subsidiary of ICDC in 1972, to further the economic development of Kenya by promoting the expansion of medium and large-scale industrial enterprises. The Bank has undertaken investments in the field of manufacturing, tourism, and agribusiness. IDB will normally only consider investments in which the total capital cost, inclusive of working capital, is above one million shillings and normally the investment made by the Bank will not be less than 400,000 shillings. IDB does not assist enterprises in purely commercial, farming, or real estate activities.

The Bank's investment activities are carried out in a number of ways: The provision of medium and long-term loans; direct equity investment in which the bank's share-holding must not exceed more than 49 percent of the total share capital in any venture; the provision of guarantees, loans from other sources (e.g., the institution has enjoyed a line of credit, for on-lending, from the World Bank) and the underwriting of security issues and bills of exchange.

The Bank's commitment in any given project will not normally exceed one half of the project's total capital cost. Interest charges, fees and commissions are at prevailing market rates. Because of the depressed economic climate, the bank has had to cut back on its investment activities over the last three years. These conditions have led both to a reduction in viable projects and a reduction in the level of local currency resources.

The Bank's financial position has suffered due to the poor performance of the various projects in which the Bank has invested. This poor performance can be attributed largely to depressed economic conditions in general, the effect of devaluation on costs of imports, and restrictions on raw materials imports. As a result of these conditions the IDB recorded a loss of nearly 7 million shillings in 1982. IDB's direct role in investment promotion is carried by a research department whose main work is project identification and market analysis for potential investment projects.

E. Kenya Industrial Estates (KIE)

KIE was set up in 1968 as a wholly-owned subsidiary of the Industrial and Commercial Development Corporation, ICDC, to encourage small and medium scale industries by providing factory premises at subsidized economic rent, accompanied by a "package" of technical assistance and financial and consultancy services at subsidized rates. The organization therefore provides not only finance to purchase equipment, but also ready-made factory premises. To date, the "project" as it was originally conceived by ICDC has establishments or estates in all major urban centres and district headquarters in Kenya. Each estate has between 25 and 55 factory units for use by industrial entrepreneurs, usually involved in manufacturing simple products such as milk cans, gas cylinders, assembled spark plugs, and stationery, and the processing of agricultural materials.

F. The Ministry of Commerce and industry (MCI)

1. Industrial Survey and Promotion Centre (ISPC)

The ISPC was a part of the old Ministry of Commerce and Industry; (the Ministries were separated during the last 4 years until they were recently re-merged). Before the establishment of the present Industrial Promotion Division, the ISPC had sole responsibility for industrial promotion. It conducted detailed surveys of specific sectors for potential investments, identified projects, drafted proposals, and publicized these locally and abroad. With the change in the structure of the Ministry of Industry, the ISPC was absorbed into the new Ministry of Commerce and Industry and its personnel absorbed into the various divisions.

2. The Industrial Promotion Division

The Industrial Promotion Division is one of the four divisions making up the Department of Industry in the Ministry of Commerce and Industry. It comprises five sections; Agro-Industries, Chemical and Allied Industries, Metal and Engineering Industries, the Industrial Co-operation section and the Industrial Information Documentation section. Although divided into sections along different lines, the present Industrial Promotion Division continues to carry out the same role as the former Industrial Promotion Department. Industrial Promotion involves the task of ensuring that there is a sound statistical data base on industrial promotion in the country, a task which used to be partly the responsibility of the ISPC.

3. <u>The Industrial Development Department</u>

The Industrial Development Department, one of two departments in the former Ministry of Industry, was in charge of project implementation. In order to facilitate the implementation of development projects the department was to work with other ministries and development agencies. To achieve its main objective, the department was also charged with the following responsibilities:

- informal sector development
- project appraisal
- industrial training and entrepreneurial development
- project appraisal

The roles which were previously carried out by the Industrial Development Department are now being carried out by the project appraisal section and the project implementation and monitoring sections in the Industrial Implementation Division, as well as the administrative section in the Industrial Administration Division. All these are in the present Department of Commerce and Industry.

4. <u>The Kenya External Trade Authority (KETA)</u>

KETA's role in general terms is the promotion and diversification of Kenya's exports. This involves activities such as participation in trade fairs and exhibitions, carrying out market surveys, and in various ways making contacts with foreign investors and traders. The Authority is made up of six sections, which carry out different roles as described below:

(a) <u>The technical section,</u> whose responsibility is the continuous assessment of Kenya's capacity to produce goods for exports (i.e., supply analysis). Studies on imported inputs essential in the production of exports and recommendations on the modification of the import duty structure are also the responsibility of this section within KETA. In addition, this section is intended to carry out the task of new product development in conjunction with other ministries such as the Ministry of Agriculture.

(b) The marketing section is concerned with generating export inquiries, building up buyer contacts, and organizing various export promotion activities. Today, these promotional activities have spread outside traditional Kenyan markets into countries such as Zimbabwe, Japan, France and the South-East Asian countries.

(c) The trade facilitation section is intended to perform the role of streamlining bureaucratic procedures involved in external trade.

(d-f) The other sections in KETA are the handcrafts section, the export credit insurance and guarantee section, the training section and the trade information documentation and information section.

G. The Ministry of Planning & National Development

This Ministry is responsible for coordinating and articulating economic development in the country. It therefore would have, on a continuous basis, information on potential areas of investment even if in terms of broad sectoral analysis rather specifically identified projects. However, in its Development Plans, the Ministry does often indicate specific areas or projects for investment in which government has indicated priority. It also plays a role in proposing incentives for investments which assist in the achievement of the country's broad economic goals such as those of employment generation, more equitable distribution of incomes (across regional and social levels), and the saving or generation of foreign exchange.

The Ministry has also been given a new role of coordinating Kenya's role in regional economic cooperation, including the newly-formed Preferential Trade Area (PTA) for Eastern and Southern Africa. The PTA is a regional grouping of 18 countries in the region which have pledged close cooperation in the areas of trade, customs, industry, transport, communications, natural resources and monetary affairs. Members have expressed a commitment to form a customs - free Common Market and Economic Community for Eastern and Southern African States by the year 2000.

H. Ministry of Agriculture and Livestock Development

This Ministry plays an important role in the promotion of investments in agriculture and husbandry in that its variou departments generate information, ideas, and data which potential investors can use as a guide when planning to invest in the agribusiness sector. The Ministry also has a project identification department, and potential project profiles are made readily available to interested parties. Once these projects are implemented, the Ministry is often willing to render advice regarding seed varieties and qualities, livestock grades, and inputs. Through its work with farmers and its direct investments in parastatals, the Ministry has sought to assure a reasonable raw material base on which most agribusiness ventures depend.

I. Ministry of Tourism and Wildlife

As its name implies, this Ministry engages in wildlife and fisheries management and the development of tourism. The Ministry manages the activities of the Kenya Tourist Development Corporation (KTDC), a parastatal shareholder in hotels and other tourist facilities. Promotional activities conducted by the KTDC include the preparation of brochures and the implementation of marketing campaigns, often in cooperation with overseas embassies and Kenya Airways. The Ministry is currently engaging in efforts to promote domestic tourism and to lengthen the stay of foreign visitors.

PRIVATE SECTOR INVOLVEMENT IN PROMOTION

The Kenyan business community has a number of organizations which promote the interest of their constituencies, whether based on industry groupings or more general bodies. However, since investment promotion *per se* is a relatively new phenomenon in Kenya, the private sector has yet to be called on to assist in investment promotional efforts. The structures and activities of Kenya's two main business organizations are as follows.

Kenya National Chamber of Commerce and Industry: The KNCCI is by far the largest business association in Kenya, with a membership of approximately 3,000 firms representing all forms of business enterprise (including parastatals) from all regions in Kenya. The Chamber was created in 1965 according to the standard organizational model used by Chambers of Commerce throughout the world.

Given its size and breadth of membership, the Chamber represents a powerful pressure group for business interests, but the Chamber's constituency is sufficiently diverse to preclude stands on policy issues which are controversial to groups within the membership. The Chamber possesses its own office space and employs four full-time senior professionals.

The principal activities of the Chamber revolve around promoting Kenya's exports. These include organizing Kenyan participation in international trade fairs, and administering an annual "New Kenya Trades Exhibition," sponsored by the Ministry of Commerce and Industry. In concert with the Kenya Association of Manufacturers (KAM) and the government's Kenya External Trade Authority (KETA), the Chamber also organizes and participates in several bilateral trade missions per year. Finally, the Chamber does seek to act as a spokesman for the business community at large in discussions with the government over policy issues. For example, in mid-1984 the Chamber organized a public/private sector seminar on export policy issues, during which a series of measures were proposed to stimulate Kenyan exports.

Kenyan Association of Manufacturers: The KAM was established in 1961 as the "East African Industrialists." It was renamed the Kenya Association of Manufacturers in 1969. The KAM's membership list represents most if not all manufacturing companies in Kenya with large or medium-sized operations. The KAM has been described and in fact describes itself as an organization committed to protect the interests of local manufacturers, particularly against unfair foreign competition. The KAM also promotes industrial growth and economic stability, seeks to encourage greater cooperation among members with conflicting interests, and undertakes or promotes economic research and market surveys of potential benefit to its members.

Despite active support from both private and parastatal manufacturers, the KAM has little in the way of organizational resources, beyond its five full-time professionals. Given its historical promotion of the import substitution regime and its desire to protect members against competition, the KAM would find it difficult to advocate major policy shifts to liberalize import and investment policies.