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PROSPECTS AND STRATEGIES FOR INVESTMENT PROMOTION IN KENYA

VOLUME I: THE INVESTMENT CLIMATE OF 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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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 "Promoting Private Investment in 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 provide an independent assessment of Kenya's investment climate, as it is viewed by local and foreign investors, in order to guide the development of investment policies and investment promotion activities.

The investment climate of Kenya offers a considerable range of opportunities for new private sector ventures. Kenya possesses many of the "assets" that are attractive to investors, and enjoys an absence of many of the "liabilities" that often deter entrepreneurs.

In spite of this generally positive assessment, the potential of Kenya as an investment site is to date unfulfilled, due in large part to policy-induced constraints. In fact, until concrete improvements in the policy framework are implemented, both local and foreign investors will delay any major new capital investments.

The Kenyan economy includes most of the basic ingredients necessary for diversified sources of income and employment. The country's topography is highly conducive to agriculture, with climatic conditions ranging from temperate to tropical. The major natural constraint to increases in agricultural output is water availability.

Kenya's geographical position is well suited both for regionally-oriented investment activities and for serving European markets. While opportunities in the latter category have until now been limited to exports of horticultural products, Kenya has the potential for obtaining European market shares in labor intensive manufactures currently held by East Asian countries.

The labor resources of Kenya can be characterized as being abundant, low-cost, and nonmilitant. Concerns have been expressed over labor productivity and availability in certain higher skill categories, but these views are not shared by the business leaders interviewed by the project team. On-the-job training is generally considered sufficient for most production line workers.

The private sector in Kenya is supported by a relatively advanced economic infrastructure, including an extensive transportation network, modern communications facilities, and a large port in Mombasa. Investors also benefit from locally-available legal, accounting, management consulting, and other business services.

One of Kenya's chief attractions as an investment site is political stability, dating back to the nation's independence in 1963. The government enjoys widespread public support and is viewed generally as serving the interests of the Kenyan people. Despite some underlying tribal rivalries and concerns over the role of the Asian community in the country's economy, Kenya's multi-racial social fabric is characterized by a strong degree of stability, particularly by regional standards.

Another source of strength to the investment climate is the fact that Kenya does not suffer the same degree of economic problems faced by many other developing countries. Kenya was not immune from the international economic shocks of the 1970s, which produced encountered government budget deficits, balance of payments problems and inflation. However, a prudent set of macroeconomic policies was implemented in the early 1980s and remains in force. Inflation has therefore been dampened, budget deficits have been reduced due to austerity measures, and the balance of payments has been improved. In addition, Kenya has not accumulated an unwieldy level of foreign debt, and therefore is not subject to massive foreign exchange requirements to service debt repayment obligations.

Despite all these positive attributes, investment in Kenya has remained relatively stagnant in recent years, indicating the presence of constraints. The lack of new foreign investments can be explained in large part by the stagnation of the world economy in general and the negative image of Africa as a site for profitable and stable ventures. These forces are beyond Kenya's control.

The principal internal constraints to investment relate directly to the policy framework, which can and should be improved over time. The key problem areas can be summarized in three categories -- import substitution orientation; heavy administrative controls over business transactions; and insufficient transparency of government decisionmaking.

Shortly following independence, Kenyan authorities implemented a standard set of policies to support its import substitution development strategy. These included high tariffs, quotas, and outright bans against imports competing with locally produced goods. This strategy did yield benefits in the 1960s and early 1970s, as domestic manufacturing grew rapidly. As the decade of the 1970s progressed, however, the gains associated with import-substitution based policies reached their natural limits, and the industrial structure became biased in favor of capital-intensive production patterns. In addition, the government became increasingly dependent upon import duties as a source of revenue.

Over time, the Kenyan government has erected an intricate structure of administrative controls over economic activities. The rationale for heavy government intervention is complex, and can be traced to previous forms of colonial administration, fears of possible exploitation by foreign firms or certain groups within Kenya, and efforts to achieve economic and social objectives. Regardless of their precise cause, the ultimate effect of these controls has been the restraint of growth in productive investments. The impact of these controls is felt from project start-up to project liquidation. They include a host of required approvals, import licenses for necessary capital equipment and raw materials, price controls, limitations on the use of expatriate personnel, barriers to entry of competitive investments, limits on local borrowing (for foreign investors), and controls on the repatriation of domestic earnings.

The sum result of these administrative controls has been a reduction of operational flexibility on the part of private entrepreneurs. This problem has been compounded by the presence and market powers of numerous government-owned enterprises, many of which are inefficient and unprofitable. The business community's natural reaction has been to delay or decline from employing new capital, which in turn has led to lower growth rates.

Compounding the disincentives to investments arising from overly burdensome administrative controls is the absence, in many cases, of any clear statement of the rules and regulations associated with these controls. For example, the precise procedures for approvals of new investments in Kenya are nowhere stated. The same holds true for many other types of administrative requirements and controls. Because policies and procedures are often not explicitly stated, there is a widespread perception -- whether warranted or not -- that government rules and regulations are not always administered in a consistent manner. This gives rise to charges of discrimination or favoritism.

The explicit statement of policies and administrative procedures would increase the transparency of government decisionmaking and would remove some of the uncertainty associated with doing business in Kenya. The greatest beneficiaries would be small indigenous entrepreneurs who often do not have access to information or to decisionmakers.

The government and business community of Kenya generally recognize the need for liberalized trade and investment policies, and a number of initial positive steps in that direction have already been taken. The basic constraint to overcome is attitudinal and relates to uncertainty regarding Kenya's ability to compete internationally and the possibility that private businesses will abuse a decontrolled economic system.

With regard to the former, it is the contention of the SRI project team that Kenya possesses all the basic resources necessary to compete effectively in international markets, and that under a conducive policy framework Kenya could become an attractive site for new investment. As a point of comparison, at the outset of Taiwan's recent economic development thirty years ago, most observers concluded that Taiwan could never compete in world markets, due to lack of domestic resources and the fact that the Chinese were by character limited to farming and trading and little else. Taiwan now stands as a formidable international competitor.

Turning to the issue of abuse, the project team believes that every country should establish and rigorously enforce a set of corporate standards of behavior, but at the same time business decisionmakers must be given sufficient flexibility to allow for profitable economic undertakings. Imposing an excessively burdensome battery of regulations will clearly stifle a country's investment prospects, and be tantamount to "killing the goose that laid the golden egg."

This report includes a number of recommendations aimed at improving Kenya's investment climate. In each case, they have been addressed from the perspective of local and foreign investors, and include the following.

- Reduce the number of product categories subject to price controls, and simultaneously expose domestic producers to competition.

- Decrease tariffs on imports not competing with domestic goods, especially on capital goods and inputs used for the production of exports.

- Produce an explicit statement of laws, regulations, and administrative controls affecting investment, particularly those relating to the approval process, in an effort to increase the transparency of government decisionmaking.

- Design and implement a standard investment incentive package, aimed at encouraging new investments in export industries.

- Establish an export processing zone or in-bond manufacturing scheme as quickly as possible in order to encourage exports of nontraditional products and to demonstrate the efficacy of an export orientation.

These and other recommendations presented in this report are neither revolutionary nor particularly new to Kenya's government and business community. In the aggregate, however, they represent ways for the government to signal to current and prospective entrepreneurs that Kenya is committed to an active strategy to encourage new private investment.

Assuming that such a commitment and its consequent policy changes are made, the project team concludes that Kenya's long-term prospects for investment-generated growth are considerable. Kenya is better positioned than most if not all its African neighbors as an attractive investment site. While any preordained notions as to the relative prospects of different sectors are ill-advised, it is likely that the initial gains will be observed in areas in which Kenya has a clear comparative advantage. These include agribusiness and labor-intensive manufacturing of consumer goods. Over time, however, Kenya has the potential for attracting a more diversified range of investment activities.

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 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 reports on the policy framework affecting investment activities in Kenya. The team then conducted interviews with business executives and public sector officials. A list of these individuals is given in an appendix to 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.

The results of the research undertaken by the project team are presented in two volumes. 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 an assessment of 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 views on the major policy constraints to existing and prospective investment in Kenya, along with the theoretically "ideal" solution -- from the view of investors -- to current constraints as well as possible initial steps that might be taken to begin the process of moving from the actual to the ideal. The final section presents a brief assessment of potential opportunities for investment 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 investment promotion activities undertaken by 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 private investment in Kenya 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 and 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 INVESTMENT "BALANCE SHEET"

When evaluating individual or alternative investment sites, potential investors first undertake a review of a country's basic "assets and liabilities" related to prospective business ventures. These variables include economic factor endowments, economic structures and trends, and political and social factors. In combination, they constitute the general operating environment within which firms of all types must operate.

The review of these assets and liabilities results in the development of a net position, or "balance sheet," for the investment site. Every investor constructs in his or her mind an assessment of a site's investment climate, based both on objective facts and figures and on subjective attitudes. This cumulative assessment is then used to compare alternative sites and to reach a decision as to whether or not to proceed.

Every country possesses attributes which act to form positive and negative impressions in the minds of investors. Until these assessments are completed -- whether in the form of pre-feasibility studies or in less structured evaluations -- investors will not actively consider new ventures. It is therefore incumbent upon any group charged with investment promotion to move potential investors through this initial process as quickly and as efficiently as possible.

Investment promotion is a form of marketing, and as such the promoter's role is to "sell" a product -- the investment site. In so doing, the promoter should emphasize those aspects which are most likely to lead to a positive investment decision. What is critically important, however, is the need to present an honest assessment of the investment climate. If incorrect information is passed on to the investment "shopper," then the credibility of the promoter becomes suspect, often permanently. An adage often used by marketing specialists is, "you may be able to sell a bad product once, but never twice to a competent consumer."

The goal of this section is to present an objective evaluation of Kenya's basic assets and liabilities as an investment site. It focuses on general economic and political factors as they would be viewed by investors. The more specific areas of domestic operating conditions, forms of government involvement in the economy, and actual investment policies and procedures, also of critical importance to potential investors, are described in subsequent sections of this report.

A. Economic Endowments and Comparative Advantages

Any objective assessment of Kenya's economic resources and comparative advantages would suggest that, on the basis of these factors alone, the potential for successful new business ventures is considerable. This potential is greatest over the medium to long-term, given existing constraints, but numerous shorter-term opportunities are available. The following review of Kenya's investment climate is expressed from the perspective of both local and foreign investors.

Land, Climate and Natural Resources

Consisting of a land mass covering some 583,000 square kilometers (about 225,000 square miles), Kenya straddles the Equator on the eastern coast of Africa. Kenya has contiguous borders with Ethiopia and Sudan to the north, Tanzania to the south, Somalia and the Indian Ocean to the east, and Uganda to the west.

The proximity of Kenya to the Equator is deceiving with regard to climate. Given major variations in altitude and topography, Kenya enjoys a rich mix of climatic conditions. Northern and northeastern Kenya is arid or semi-arid. The low altitude regions in the south and southeast have a tropical climate, with hot temperatures and high humidity. The climate of central and western Kenya, on land ranging from 1,200 to 2,400 meters (4,000 to 8,000 feet) above sea level, is temperate, thereby supporting a wide range of agricultural activities. Agricultural production in this area is dependent upon two annual periods of rainfall, the "long rains" lasting from April to June, and the "short rains" falling in October and November.

Approximately 20 percent of Kenya's land is considered arable, to a large degree a function of regional rainfall and water availability. Cultivated areas could be and are being expanded through irrigation. These efforts are important in view of the fact that some 80 percent of the population is sustained directly by agricultural activities, consisting of both subsistence and cash crop farming.

Based on known information, Kenya is not well-endowed with natural resources other than land. Despite a fair amount of exploration, no commercial quantities of energy resources (oil, natural gas, or coal) have been discovered. As a result, Kenya is almost totally dependent upon imports for these energy resources. The consumption of firewood for cooking in rural areas has begun to threaten existing forest resources. However, the country has significant potential for hydroelectric power and other renewable sources of energy.

Kenya has known deposits of several minerals, including soda ash, fluorspar, limestone, salt, lead, silver, gold and certain gemstones. However, these deposits are relatively small and contribute only minimally to domestic output and exports.

Kenya's geographical position makes the country attractive for several forms of business activity. Due to its location in the center of eastern Africa, Kenya represents an attractive site for regional management, marketing, and production activities. Kenya is sufficiently close to European and Middle Eastern markets (particularly in comparison with the Far East) to serve as a source of foodstuffs and other consumer goods. Kenya's distance from North America, however, constitutes something of a disadvantage with regard to serving U.S. and Canadian markets, but given modern transportation techniques, this should not be a major problem for products other than perishable goods.

Labor Resources

Kenya's labor resources can be characterized as abundant, inexpensive, and industrious. The abundance and low cost of labor results from a high population growth rate, unemployment in the modern sector, and general conditions of poverty in the traditional sector.

Kenya's annual population growth rate of 4.0 percent is one of the highest in the world. While the rapid expansion of population represents a major challenge to Kenya's economic growth and resource availability, it constitutes a source of opportunity for investments requiring heavy labor inputs. The age composition of the population is heavily skewed toward its younger members, with more than one-half of the total population falling under 20 years of age.

Wages in Kenya are low by international standards, rising from a minimum wage of approximately $50 per month for unskilled workers. The price of labor in real terms has fallen by about two percent annually in recent years.

The government offers seven years of free education to Kenyans and is in the process of extending this to eight years, thereby providing literacy and basic educational skills to new entrants into the labor market. Approximately one quarter of the total government budget is allocated for education.

One factor affecting the careers of students with more advanced education has been an informal commitment by the government to place unemployed college graduates in public sector positions. It has been estimated that between 40,000 to 50,000 new employment opportunities are created annually in the modern sector, and of these about one half are in the government and/or parastatal institutions. This government commitment is in the process of being eliminated, thereby promising the release of higher numbers of college-trained recruits to the private sector.

Production-line workers generally acquire necessary skills on the job, a system which is deemed adequate by current employers. On-the-job training is complemented in some industries by a "training levy system" in which employers contribute small monthly amounts per employee, the proceeds from which are used to finance formal external or on-site training programs.

In general, Kenyan laborers respond favorably to financial incentives, such as monthly bonus systems triggered by improvements in production quality or quantitative output. While a set of minimum working standards covering wages, vacations and overtime compensation have been established by the Kenyan government, employers are given a high degree of freedom and flexibility in offering specific performance incentives.

While workers possess the right to strike, labor disputes are settled according to formal arbitration procedures laid down in the Trade Disputes Act. Disputes are initially referred to the Minister of Labor, who has the option of passing unsettled disputes on to binding arbitration in the Industrial Court. During this process, strikes and lock-outs are not permitted.

Trade unions represent a large proportion of Kenyan workers, including about 40 percent of the labor force in the modern sector. However, membership in a union is not obligatory. Despite the size of the trade union movement, Kenya has enjoyed a considerable degree of labor stability and harmonious industrial-labor relations since independence. Strikes have been almost unknown over the past decade, and there is little union militancy. Current and prospective economic conditions suggest little change in this area.

In general, the capabilities and abundance of labor represent a considerable comparative advantage for Kenya as an investment site. As in every country at this level of development, shortages of labor do arise in particular skill categories, such as at the middle management level. However, these problems are not viewed as major constraints by the investment community, and they are outweighed by the positive labor market conditions described above.

Capital Resources

Capital and credit market conditions in Kenya are relatively healthy in comparison with those prevailing in most developing countries, especially those nations with high levels of external indebtedness.

However, from the perspective of current indigenous and foreign investors, problems associated with access to investment capital exert a negative influence on the Kenyan investment climate in general.

As is commonly the case with developing countries, Kenya's financial market is biased toward short-term deposits and loans. This obviously works to the detriment of firms seeking financing for longer-term projects. However, Kenya's situation differs from that of most other developing countries, where private investors can obtain local currency loans (often at high rates of interest), but cannot arrange foreign currency loans to finance imports. Kenyan investors find that local currency funds are scarce, and firms are in fact urged to assume longer-term loans denominated in foreign currencies. This practice forces Kenyan investors to bear the foreign exchange risk associated with longer-term borrowings.

At the macroeconomic level, savings rates in Kenya are respectable at levels of about 16-17 percent of gross domestic product (GDP). Aggregate investment rates are even higher, at some 25 percent of GDP in recent years. The differential between investment and savings rates is made up of inflows of foreign assistance and borrowings from both public and private international financial markets.

Interest rates are set by the government. In the 1970s, prevailing monetary policies led to conditions of negative real interest rates, because inflation rates exceeded administered interest rates. This situation has been reversed in recent years, resulting in positive real rates. The prevailing level of inflation has been about 10.0 percent in 1985, and borrowing rates from commercial banks are about 14.5 percent, leading to a positive real rate of 4.0 to 5.0 percent.

The consensus within the Kenyan business community is that interest rates are currently too high, and are thus discouraging investment. Private financial institutions (as opposed to commercial banks) are charging a minimum of 19 percent on loans, which is allowed by the Central

Bank. However, a host of other permissible charges and ledger fees bring effective rates to a level of 22 to 25 percent, which is well beyond the returns obtainable in various sectors.

"Unofficial" money market rates in Nairobi are currently as high as 30 percent, which does not so much reflect strong demand for credit as an acute shortage of capital. As a result, those who obtain funds at these rates tend to place funds into speculative ventures such as trading and real estate rather than in productive investments.

Kenya's financial system is dominated by the actions of the Central Bank. As in most nations, the Central Bank controls the issuance of currency and notes, regulates the banking system, administers exchange controls (covering both payments for imports and outward remittances of capital and profits), provides financing to the government, and regulates bank liquidity and interest rates as instruments for meeting monetary policy objectives.

Traditionally, financial transactions in Kenya have been largely the province of commercial banks, which still represent the core of the market on the basis of either assets or market activities. The commercial bank sector includes both local and foreign-owned institutions. The Kenyan government owns and operates several as parastatals. In recent years, Kenyan's financial market has experienced a relatively rapid growth in "non-bank" financial institutions, including a rising number of finance companies which can accept deposits and lend to local agricultural, industrial, and commercial concerns. These are supplemented by government-owned development banks, most notably the Industrial and Commercial Development Corporation (ICDC), the Industrial Development Bank (IDB), and the Development Finance Company of Kenya (DFCK), all of which provide financing to private and public sector investment projects. The financial market is rounded out by the presence of different forms of institutional investors, such as insurance companies, trustee savings banks, and building societies, which absorb savings and place funds in financial or other productive assets in their role as institutional investors. Long-term capital has also been provided by the Nairobi Stock

Exchange in the form of equity issues. Those companies listed on the exchange, however, tend to be historically well-established firms. Secondary markets for securities are negligible. The activities of the stock exchange were acutely diminished by the introduction of a capital gains tax in 1975. Although this tax was gradually reduced in recent years and was totally suspended in June, 1985, there remains little interest in new issues of equity stock.

The principal sources of longer-term investment capital are the retained earnings of existing companies, and investment funds provided by donor agencies and passed through Kenyan development banks. Inflows of foreign direct investment have fallen off in recent years due to the dearth of new large-scale projects. Foreign investors are also loath to commit new equity capital due to limitations on capital outflows. In addition, foreign investors are permitted to borrow locally only up to 20 percent of their equity stake. These two forces combine to reduce their access to capital and credit.

Another structural problem adversely affecting financial market conditions is the deficits financing needs of the government. Significant portions of private savings are directly or indirectly absorbed by the government, largely in the form of securities such as Treasury Bills. This is particularly true for institutional investors and for social security contributions. Financial institutions also face relatively high reserve requirements, which in effect tie up additional amounts of capital.

Financial firms rely heavily on collateral as security against loans. Collateral-based lending to industrial, real estate, and even small farm concerns often limits the flexibility and leverage of the borrowers' equity and operational strategies.

Despite these and other problems facing private investors in the area of accessing adequate capital and credit, financing is available tc entrepeneurs for productive new investments. A number of financing facilities have been underutilized. The basic shortage of capital in Kenya is a direct result of low per capita incomes. However, savings rates remain relatively high, and supplemental sources of capital can be found in the form of economic assistance and foreign direct investment.

Infrastructure

From an investor's standpoint, Kenya has a relatively advanced physical and business service infrastructure to support business activities, particularly in comparison to most countries in the region. Kenyan investors enjoy a modern road and rail transportation system, are well served by international air routes, and are linked to sea transport by large port facilities in Mombasa. Communications capabilities are good. In addition, the business services sector is strong in such areas as legal services, accounting, and management consulting.

B. Economic Structure and Trends

The previous section examined Kenya's basic resource endowments. The following discussion reviews how those economic assets have been marshalled to generate economic outputs in the form of goods and services, income, employment and foreign exchange.

Structure of the Economy

Kenya's economy rests firmly on the pillar of agriculture, which accounts for over one third of GDP and approximately two thirds of exports other than re-exported, refined petroleum products. This agricultural core of the economy is supplemented by two other income-generating sectors -- manufacturing, and trade and tourism -- each of which contribute approximately 13 percent of GDP. In combination, these three sectors comprised nearly 60 percent of Kenya's aggregate output in 1984. With the exception of government services (12 percent of GDP), other sectors such as construction, utilities, financial services and transport exist mainly to provide ancillary services to Kenya's three economic "pillars". As such, the fortunes of the service sector rise and fall in accordance with basic trends in the core set of economic activities.

Agriculture: Approximately 80 percent of Kenya's population live in rural areas and depend on agriculture for income and employment. Agriculture provides both food for domestic consumption and cash crops for export. Production of basic foodstuffs includes maize, wheat, vegetables, dairy products and livestock. Cash crops consist of coffee, tea, sugar cane and pyrethrum (a natural insecticide). Cash crops account for about 70 percent of farmers' gross income, with tea and coffee alone contributing about 55 percent.

The range of crop varieties produced is considerable, as a function of climatic and altitude variations. Tea, wheat, barley, pyrethrum, non-tropical fruits and most varieties of vegetables are grown in the highlands. Coffee, maize, and tobacco are produced in intermediate altitudes. Finally, along the coast and at low altitudes, farmers cultivate sugar cane, cotton, sisal, rice, tropical fruits (pineapples, mangoes, coconuts, and citrus), and nuts. The production of cattle, sheep, chickens, goats and pigs provides a wide variety of meats for local consumption and export, as well as wool, hides and skins, and dairy and poultry products.

Manufacturing: Kenya's manufacturing sector grew rapidly during the first decade following independence, largely as a result of rising domestic demand caused by growth in agriculture. The bulk of manufacturing is oriented toward the satisfaction of domestic needs, and is supported heavily by import substitution policies and barriers of entry to firms which would compete with existing producers.

The composition of products manufactured in Kenya is concentrated in consumer goods, such as processed food, beverages, textiles, leather products, pharmaceuticals, furniture, and automobiles and parts. Secondary industries in such areas as chemicals, fabricated steel products and building construction materials have emerged to support finished product manufacturing and construction.

Most manufacturing is located in the principal industrial centers of Nairobi, Mombasa, and Thika. The oil refinery at Mombasa imports and refines oil both for domestic consumption and for re-export. Due to the geographical concentration of manufacturing, the only fiscal incentives provided to industry (in the forms of accelerated depreciation) are for firms locating outside the major industrial centers.

As a direct result of the policy framework, most manufacturing concerns are large in scale relative to the size of the domestic market. A further incentive to large scale operations was the existence of the East African Community (EAC), which provided an enlarged common market and economies of scale for producers. The breakup of the EAC in 1977 depressed demand for Kenyan manufactured goods, leading to a shutdown of capacity in many industries. Recovery has been achieved due to rises in domestic demand and the initiation of exporting in several product categories.

Tourism: Kenya possesses enormous assets to support a viable and growing tourism sector. Natural resources include game reserves in a number of areas, beaches along the coast, interesting topography, and a highly suitable climate.

Tourism has reached a level of approximately 400,000 visitors per year, and under appropriate conditions could rise to as many as 1,000,000 by the end of the current planning period (1988). Average annual occupancy in Kenyan hotels runs at about 60 percent, with almost full occupancy achieved during the Northern Hemisphere's winter months. The average visitor stay has fallen slightly in recent years, and it is estimated that the desire of most tourists is to stay in Kenya for about one week.

Growth in tourism faces two basic constraints. The first is the relatively high cost of travel fares to Kenya from Europe, and especially North America and East Asia. Despite low in-country costs, high air fares lead to the fact that only relatively affluent tourists can afford to visit Kenya. The other constraint, longer term in nature, is availability of land to support game. According to the Ministry of Tourism and Wildlife, some 70 percent of Kenya's game lives outside formally established reserves, and often damages agricultural crops, thereby creating natural enemies in farmers. Farmers would also like to cultivate areas in game reserves. Given competing demands for land, longer-term limits on tourism capacity are likely to emerge.

Industrial Organization/Concentration

Forms of industrial organization and concentration in Kenya are functions of industrial, monetary, and fiscal policies, direct government involvement in economic activities, and the roles played by local and foreign investors. Government policies have created biases in favor of larger scale operations and market concentration in many product areas. In addition to the outright monopoly positions previously granted to certain firms, these "policy biases" have included the low interest rate ceilings of the past, import substitution policies, and barriers to market entry due to onerous investment application and approval processes.

In the past, when Kenya was seeking productive investments of any kind, individual firms, mostly multinational corporations, negotiated direct arrangements with the government which involved absolute monopoly positions. That is, the entrance of competitors into the market were banned outright. While these agreements have long since been abandoned, they have been replaced in effect by import substitution policies and approval systems which effectively prohibit new investments in product areas in which the sales and profitability of existing firms would be eroded.

In short, established firms not only are protected against import competition, but also against domestic competition. Local firms do complain about irregularities in policy implementation, however, such as periodic imports of inexpensive competitive goods. Overall, however, general policies support levels of industrial production that might be unwarranted under free market conditions. Additional factors favoring larger scale factories include the burden associated with administrative procedures, credit market deficiencies, and periodically narrow profit margins due to price controls, all of which are easier for larger firms to manage.

Overall, Kenya's public sector, including the Central Government, local governments, and parastatals, constitute about one quarter of domestic output, two fifths of total capital formation, and almost one half of employment in the modern sector of the economy. About one half of the total size of government in terms of output and employment is taken up by Kenya's parastatals. As of 1984, these included 45 wholly-owned government enterprises, 99 companies in which the government has a minority equity interest, and 147 Statutory Boards.

Despite the significant government share in the economy, the private sector does account for about three quarters of domestic product. The role of private enterprise is especially important in Kenya's key growth sectors, accounting for most of value added in agriculture, manufacturing, and tourism.

Kenya's formal manufacturing sector encompasses about 700 companies. This number includes over 180 multinational corporations, most of which are from Great Britain, the United States, and West Germany. Approximately one half of foreign investments are in the form of joint ventures with local investors and/or the government, often at the request of all concerned. Foreign firms are generally considered to be more efficient and profitable than their local counterparts, and are estimated by the government to account for up to 70 percent of domestic value added in manufacturing.

The "informal" or traditional economy of Kenya consists of small scale, nonfarm economic activities such as trading, handicrafts, simple manufacturing, and services. These activities are estimated to constitute about six percent of Kenyan GDP. Most of these enterprises do not actually produce goods and services, but rather act as middlemen, and therefore do not create much value added. Kenya has a considerable number of so-called jua kali operations (open air garages), employing anywhere from one to half a dozen individuals in metal fabrication, car repairing, etc. Historically, these operations have survived but have seldom grown in spite of the availability of government services. Despite recent expressions of interest and moral encouragement of the informal sector by high ranking officials, actual government support has been uneven. In fact, several years ago these small-scale entrepreneurs were encouraged to "go back to the land". However, the growth potential for such enterprises should not be underestimated, as indicated by the success of store front factories in East Asia and in other parts of the world. Since small indigenous enterprises can become a strong stimulus to growth and equity, Kenya's informal sector should be encouraged through institutional and material support.

Structure of External Trade, Finance and Investment

Kenya's balance of payments structure is characterized by structural trade deficits offset in part by net surpluses in services, government transfers (foreign assistance), and long-term capital inflows. The composition of exports is dominated by beverages and food, which in 1984 accounted for 62 percent of commodity exports, followed by fuel and lubricants (19 percent), and industrial supplies (15 percent). In 1984, coffee and tea alone constituted over 50 percent of Kenya's total exports. As a result, the country's trade revenues are heavily susceptible to fluctuations in international prices for these commodities.

Kenya's principal imports are crude petroleum and industrial machinery which together account for 43 percent of total imports. These are followed by iron and steel, motor vehicles and components, and other industrial raw materials. The bulk of Kenya's merchandise trade (both exports and imports) is conducted with Western Europe, with the United Kingdom and West Germany heading the list. About 5.5 percent of Kenya's combined trade is with the United States. Outside of this general pattern of trade, Kenya does import significant quantities of petroleum from Iran, and exports considerable quantities of industrial and consumer goods to Uganda.

Other activities which generate net foreign exchange earnings include travel (tourism) and transportation services, supplemented by inflows associated with government transactions and government transfers. These inflows are offset to a certain extent by outflows recorded for investment income (dividends) and other services and income (including debt repayments).

The aggregate of these flows, Kenya's current account, is structurally in deficit, due to large trade deficits. The current account, minus flows of foreign assistance, can be considered a country's "international earning statement." In Kenya's case, this statement shows a negative position, meaning that Kenya essentially spends more than it earns. This is normal and should be expected for any developing country, however, since inflows of capital (directed toward higher returns on labor and other factors) are used to offset current deficits. This is true of Kenya, since inflows of capital (private long-term, government long-term, and short-term) are all in the credit column of the ledger, meaning that inflows of capital are used to offset deficits on current expenditures.

The structure of Kenya's balance of payments is what investors would normally expect when reviewing Kenya as an investment site. Investors would prefer seeing a more diversified export base, suggesting that Kenya could represent a possible platform for exports. However, the external payments structure indicates that a number of promising investment opportunities should be present.

Domestic and International Economic Trends

Following Kenya's independence in 1963, the nation experienced a decade of strong growth and considerable structural change. GDP expanded at an annual rate of 6.6 percent, with agriculture and manufacturing growing at 4.7 percent and 8.4 percent, respectively, during this ten year period. The fundamental stimulus to the growth of the manufacturing sector was rising agricultural income spurred by land redistribution and the introduction of advanced production technologies.

During the 1970s, the momentum created by agricultural growth reached a plateau, and the gains associated with import-substitution based industrial policies became increasingly exhausted. However, Kenya's domestic economic performance was even more adversely affected by international shocks and developments, including dramatic increases in oil costs and inflation and resulting global stagnation.

Kenya dealt with the initial round of the "adjustment crisis" without undue disruption to the domestic economy, benefiting first from the cushion of considerable foreign exchange reserves, and later from rises in world coffee prices in the mid-1970s. However, Kenya gradually began to suffer from a deterioration in its terms of trade position arising from the combination of declining commodity prices for Kenya's principal exports and rising prices for oil and other essential imports.

The domestic economy was heavily influenced in the 1970s and early 1980s by shifts in Kenya's external terms of trade. Agricultural growth slowed to about 3.0 percent annually in this period, whereas manufacturing continued to expand at a healthy annual rate of about 10.0 percent. This expansion was encouraged both to stimulate domestic investment and to supply local needs while conserving foreign exchange. The government increasingly provided incentives for investment, mostly in the form of equity or loan financing, but also in the form of arrangements to protect current producers from either imports or new competitive investments. These and related policies led to a growing bias against exports, since higher profits were to be made (regardless of levels of production efficiency) in supplying the domestic market, rather than in participating in competitive markets for exports.

In the 1980s, the Kenyan economy has faced a series of challenges and has emerged from them in a comparatively strong position. The first challenge was the international recession of 1980-1983, spurred both by the second round of oil price rises and by contractionary policy responses in certain industrialized countries. This was followed almost directly by the worst drought in East Africa in decades. Food production fell sharply in Kenya as it did elsewhere, requiring considerable efforts by the government to purchase food and to organize relief activities. Offsetting this major crisis, at least from an economic standpoint, were record high tea prices and relatively high coffee prices in world markets. Tea prices have fallen off by about one-third in 1985, and coffee prices have in recent months first fallen and then recouped their upward momentum, with current prices for these commodities at relatively strong levels. These factors, which have assisted in easing Kenya's foreign exchange situation, have been supplemented domestically by a bumper maize harvest in 1985.

As a result, economic growth in Kenya has rebounded from a rate of less than 1.0 percent in real terms in 1984 to an estimated 3.0 to 4.0 percent in 1985. The prospects for the future are uncertain. Foreign exchange availability is already relatively tight, and a number of large import bills and debt repayments come due in 1986. Future prospects will depend largely on the fortunes of world coffee and tea prices, but also to a growing extent on the ability of Kenya's private sector to grow and provide alternative forms of export earnings.

The government's basic monetary and fiscal policies have been designed in recent years to reach the objectives of stabilizing the economy and putting into place an environment conducive to long-term growth. The government initiated a stringent austerity program in 1982/1983 to overcome a major budget crisis. The government has not deviated from this program despite the major financial demands associated with the 1984 drought, and the implementation of an expanded educational system. These fiscal efforts were supported strongly by infusions of official foreign capital, in the form of IMF stand-by programs, World Bank structural adjustment loans, and bilateral assistance from a number of donor nations. The government appears to remain fully committed to its current policy course.

Monetary policies have been designed to assist in the government's overall strategy to effect structural adjustments. Interest rates have been changed from negative to positive real levels, in order to provide incentives for savers and greater discipline for borrowers. In addition, the government has adopted a pragmatic exchange rate policy based on periodic downward adjustments in the value of the Kenyan shilling. As a result, the shilling has depreciated by about 50 percent between late 1982 and September 1985, thereby raising import costs and reducing a disincentive to exports. The government has limited its own borrowing in an effort to expand the availability of credit to the private sector.

Kenya's foreign exchange reserves have fallen off slightly toward the end of 1985, to a level of about 5,300 million shillings ($321 million), or enough to cover slightly less than three months of imports. Kenya's external debt has risen gradually to a level of about $2.9 billion, relatively small by international standards but sufficiently large to pose a burden for an economy at Kenya's level of development and capacity for generating foreign exchange earnings.

In sum, the macroeconomic situation in Kenya is sobering but far from critical. The agricultural and manufacturing sectors remain strong, and have not been damaged by factors that have caused deterioration in many other countries. The economy has a high degree of depth and diversity by regional standards (and respectable by international standards), although improvements based on efficient production patterns are clearly required.

The government has embarked upon and maintained a sound macroeconomic and foreign exchange strategy. Despite price controls and other administrative devises, the values of domestic goods and the shilling against other currencies are within the range of equilibrium. While external debt and debt service levels are worrisome, they are by no means as high as in many developing countries. However, the prospects for the near term are for continued austerity and some deterioration in macroeconomic conditions.

Overall, the structure of and developments in the Kenyan economy present potential investors with many of the essential features necessary for successful ventures. No firm should expect to generate high returns in the near term, but Kenya's "economic balance sheet" has considerable assets for longer-term growth. However, it is critically important for the government to improve the policy environment through the reduction or removal of disincentives and the initiation of targeted incentives.

C. Political and Social Factors

In an absolute and particularly a relative sense, Kenya has enjoyed a high degree of political and social stability, both of which are critically important to potential investors. The government has earned a strong degree of legitimacy among the populace; there is a strong consensus that the government is seriously oriented toward improving the welfare of the people. The only serious attack on political stability in Kenya in recent years was an unsuccessful coup attempt by relatively junior members of the military in mid-1982. This attempt was quickly put down and never achieved public support.

Private investors have benefited from political stability in Kenya. For example, there have been no cases of force majeure (takeovers or destruction of property as a result of war or insurrection) in recent history. Nor have there been forced government takeovers of foreign investments in the form of outright expropriations without adequate compensation. Several cases of complaints by foreign investors regarding permission to repatriate capital were resolved amicably.

The government is positively disposed toward private enterprise, despite heavy government participation in the economy. The observed trend in recent years is toward a reduction of the government's role in the economy, based on popular support.

Kenya is generally considered to be the most stable and most private-sector oriented country of East Africa, is centrally located in the region, and has strong transportation facilities. As a result, Kenya serves as a commercial hub for corporations and trading firms serving Tanzania, Uganda, Somalia, Rwanda, Burundi, Eastern Zaire, and the southern portions of Ethiopia and Sudan.

The Kenyan industrial sector suffered from the breakup of the East African Community (EAC) in 1977, since the EAC had constituted an enlarged market for economies of scale. Political relations between Kenya and some neighboring countries have gone through periods of considerable tension since the mid-1970s. The basic issues associated with the dissolution of the EAC (such as the distribution of the EAC's assets) have recently been resolved, although some operational problems may emerge during the period of implementation. Recently, the countries of eastern and southern Africa have created a "Preferential Trade Area" (PTA) to stimulate trade and promote more efficient regional production patterns. Kenya and Zimbabwe are the most industrialized countries among the signatories to the PTA, and as a result may reestablish themselves as trading hubs. While the public and private sectors of Kenya remain optimistic about the potential for PTA-generated trade and production, the prospects -- at least in the short term -- remain uncertain. Despite the exchange clearing mechanism designed to overcome the need to finance transactions in hard currencies, most participants in the PTA are experiencing major financial constraints and compete at the product level. As a result, growth in PTA trade will increase only gradually over time, even if practical issues associated with implementation (such as rules of origin) can be resolved.

The socio-political environment facing private investors in Kenya is relatively attractive, but is marked by many complicated layers of attitudes and competition and conflict among different domestic groups. Any and all of these variables could affect the viability of existing or new investments. The following discussion notes some of the salient issues.

The Heritage of Colonialism: Kenya has been left with many of the positive and negative consequences of its colonial period of history. On the positive side are infrastructure and viable commercial enterprises which remain in place to this day. On the negative side -- from the perspective of the investor -- are two facts. First is an inherited system of government that places a high premium on administrative control over most economic activity. This system has been strengthened even further by the second factor, an understandable attitude of deep suspicion toward foreign (or even local) investors deemed as seeking to exploit the people and resources of Kenya, replacing political colonialism with economic dependence.

Ethnic/Tribal Rivalries and Competition: Kenya is a multi-racial and multi-ethnic society with all of the normal advantages and disadvantages associated with such diversity. Competition for economic and political power is deeply engrained in the society, but is not as much a source of overt tensions as in many ethnically diverse nations in Africa. However, it is a fact of life that can affect the outcome of investment-related decisions, both inside and outside government.

African/Asian Attitudes: In addition to possessing a number of African ethnic tribes, Kenya also is the home of a considerable Asian community, primarily of Indian descent. Some of this group migrated to East Africa generations ago and are now Kenyan citizens. Others have arrived more recently as a result of both economic opportunities and political pressures. The Asian community is considered industrious and adept at engaging in business enterprises. As in other countries, there have emerged deeply felt attitudes relating to economic domination, political/business alliances, and the pursuit of illegimate business practices.

Local Versus Foreign Ownership: Strong opinions prevail on whether or not domestic resources should be left in the hands of foreigners. In Kenya, much of this issue is argued at the emotional level for popular consumption, but not at the level of policy implementation. The government has in recent years adopted a concerted policy to promote "Kenyanization" of the economy, including the encouragement of local equity shareholding in existing and new foreign enterprises operating in Kenya. However, both the public and private sector fundamentally supports foreign investment in the economy.

The experience of the SRI project team clearly indicates that countries which leave ownership decisions largely in the hands of individual entrepreneurs are usually much more successful in promoting investment than are countries which place controls on ownership or reserve particular business activities for specific groups. Most industrial countries employ the former approach, as do certain developing countries such as South Korea, the Republic of China, and Singapore, as does the city state of Hong Kong. Placing limits on ownership or reserving sectors for local investors may be compelling from a political standpoint, but such limits deter positive investment decisions. They also lead inevitably to the establishment of "fronts," in which ineligible groups employ eligible groups as "managers" or "owners" of enterprises. Enforcing laws which control the excesses of all investors are preferable to overt forms of discrimination. While all countries retain the right to control the management and ownership of "strategic industries" (e.g., defense, utilities, etc.), governments which permit flexible and liberal ownership patterns in the majority of economic sectors offer a significant incentive for new investment.

Despite strong attitudes regarding the need to control the activities of business entities, the people and government of Kenya are committed to the development of the private sector in the economy, perhaps more so than in most nations in the region. While the policies, procedures, and systems designed to provide administrative control represent the bane of many members of the business community, the underlying forces in the political and social climate are favorable to private investment, and will continue to improve in the future.

D. The "Bottom Line"

Serious investors review any site's basic assets and liabilities carefully before deciding to proceed, but eventually reach a conclusion as to the "bottom line." This refers to a country's absolute and relative attractiveness as a place for doing business.

In the view of the project team, Kenya's investment assets far exceed its liabilities. The asset side of the ledger includes a topography conducive to diversified agricultural production, geographic position, and ample labor resources. Kenya possesses neither oil reserves nor the natural resource base of neighboring Zimbabwe. However, few countries have been successful in achieving sustained development progress -- defined here as continued and equitable growth -- on the basis of significant resource endowments. In fact, many well-endowed nations have failed, and many others with scarce resources, such as Japan, South Korea, and Taiwan, succeeded in part because they had to use resources efficiently and rely on their comparative advantages in order to sustain levels of well-being and grow economically.

Another major source of strength in Kenya is political stability, in which Kenya ranks well above nearly all countries in the region and in fact on the African continent as a whole. This is supported currently by a sound macroeconomic policy strategy oriented toward economic stability. As a result, Kenya also benefits from an absense of many of those factors (e.g., inflation and high levels of external indebtedness) that plague competitors not only in the surrounding region but throughout the developing world. Notwithstanding considerable economic trials in recent years, Kenya withstood the major economic shocks of the 1970s and early 1980s and emerged with its economy basically intact and without serious structural damage.

Turning to liabilities, Kenya does bear the weight of an extremely high population growth rate and a low per capita income level. The former represents a current and especially a future drag on the economy, since resources must be expended to meet the basic needs of the Kenyan people. Kenya's low per capita income, in conjunction with population growth, results in a limited savings base to support capital formation.

The majority of Kenya's weaknesses as an investment site, however, can be traced to the investment policy climate, and hence these weaknesses can be reduced over time. As described in further detail later in this report, the legacy of import substitution policies and burdensome administrative controls have constrained the growth of private sector investment in recent years, and will continue to do so unless they are revised. These policies are essentially based on economic and social premises which may have been valid in the past, but are certainly not supportive of investment and export growth in either the Kenyan or the international economic context.

To end this section on a positive note, the project team is convinced that the government and business community recognize the nature and negative effects of many policy-induced constraints. As a result, the government is in the process of re-evaluating investment-related policies and procedures, and has taken a number of important steps in the area of policy reform to promote investment.

III. GOVERNMENT INVOLVEMENT IN THE ECONOMY/INVESTMENT

A. Government Attitudes Toward the Private Sector

The Government of Kenya has -- since independence -- been committed to the maintenance of a mixed economy. Private ownership of land and other productive assets is a constitutional right of all Kenyan citizens, and private enterprise activity has been encouraged in most sectors of the economy. Unlike the case in many other African countries, the private sector rather than the government has been seen as the primary engine of economic development in Kenya. This approach has been reaffirmed in a number of recent speeches and policy papers. Kenya's Fifth Development Plan (1984-1988) stresses the mobilization of domestic savings and investment and places special emphasis of the key role of the private sector.

However, underlying the broad policy of encouraging private economic activity, and the recognition of the benefits provided by private enterprise, is a considerable degree of suspicion of the motives and behavior of the private sector. This translates into a conviction that the government must maintain a tight control over private sector activity. This attitude is clearly in evidence in the Fifth Development Plan, which states that:

> "The government's effort to encourage private initiative throughout the economy should not be interpreted as a laissez faire policy. Private sector activities must promote and support the public interest and foster development in a spirit of mutual social responsibility. Irresponsible profiteering, exploitation, smuggling, hoarding and speculation are not in the public interest. The government control structure must deal effectively with these undesirable side effects of unregulated private sector activities."

A major factor contributing to existing reservations about the role of the private sector in the economy is the fear of concentration of economic power in the hands of foreigners or Asians at the expense of African entrepreneurs. The cumulative result of these concerns is a considerable degree of direct and indirect government intervention in the economy. These interventions, including price, trade, and foreign exchange controls, heavy parastatal involvement in the production and distribution of goods and services, and a host of cumbersome administrative procedures, are a major factor shaping Kenya's investment climate.

B. Direct Government Involvement

Direct government involvement in Kenya's economy is considerable. The combined shares of the Central Government, local governments, and parastatals accounts for 25 percent of GDP, 40 percent of capital formation and about 50 percent of modern sector wage employment. Parastatal enterprises are involved in virtually every sector of the economy. Many enjoy either official or de facto monopoly positions. While there are conflicting accounts on the exact number of parastatals, it is clear that they number well over 200. According to the World Bank, the parastatal sector consists of 81 wholly-government-owned enterprises, 45 enterprises in which the government holds a majority share, and an additional 99 enterprises in which the government has a minority interest.

The government stake in many of these enterprises is held by publicly-owned financial institutions such as ICDC, IDB, and DFCK. The ICDC, in particular, acts as a holding company for shares of many of the firms in which the government has invested.

The functions of existing parastatals range from advisory and regulatory functions to direct involvement in the production and distribution of goods and services. There are also a number of parastatal financial institutions. Parastatal enterprises are involved in most basic industries, including textiles and footwear, construction and engineering, food processing, pharmaceuticals, and vehicle assembly.

C. Government Controls

1. Price Controls

The prices of a large number of products are subject to government controls under the terms of the Kenya Price Control Act. Price controls are administered by the Price Controller, an officer of the Ministry of Finance. The Fifth Development Plan specifies that price controls will continue to be applied to "essential consumer goods" as well as to other consumer items where producers enjoy a monopoly position due to import restrictions and/or tariffs. The prices of 14 items are currently controlled under the former justification and 27 under the latter. Controlled items are listed by brand name and package size, with maximum wholesale and retail prices specified for each item.

Price increases can only be granted through individual application to the price controller. In theory, the controller grants or denies price hikes on the basis of increases in production costs other than labor-related expenses. In reality, the decisions are often arbitrary. Some firms have been refused price hikes or have even had allowable prices reduced on the grounds that they were already enjoying sufficient profits. While the price control system in general is opposed by the business community, it is the administration of the system that causes the most problems for investors.

Applications for price increases often become major political issues. While the price controller is theoretically responsible for the ultimate decision on a particular application, requests for price increases are sometimes discussed at the cabinet level.

2. Import Controls

Import controls imposed by the Government of Kenya include direct licensing of imports, import duties, and sales tax levies on imported goods. The stated purpose of these controls is to regulate foreign exchange expenditures and to protect or stimulate targeted economic sectors or industries.

Import licensing is implemented jointly by the Ministry of Commerce and Industry and the Central Bank. An import allocation license is required for virtually all imports with an invoice value in excess of 4,000 Kenya shillings.

For certain products where local producers have been granted monopoly or protected status, it was previously necessary for importers to obtain a "letter of no objection" from local manufacturers before an import license would be granted. The number of products subject to this requirement was gradually reduced over time, and the "letter of no objection" system is no longer in practice. However, local producers still complain about "illegal" entry of imported goods that compete with locally-manufactured items.

Prior to 1984, import licenses were allocated on a quantitative basis by product. The level of imports licensed during any given period fluctuated, depending on the availability of foreign exchange. During 1981-1982, low levels of reserves resulted in a significant curtailment of the flow of imports. This in turn caused serious operating constraints for many local manufacturers due to their heavy dependence on imported raw materials, machinery, and spare parts.

The quantitative allocation system has been replaced by a new four-category, prioritized allocation scheme. Under this system products in schedule 1A (currently consisting mainly of industrial raw materials used for production of exports) are automatically licensed and granted a foreign exchange allocation. For products in schedule 1B (spare parts, machinery, medicine, farm implements, and other industrial and agricultural inputs), importers are granted annual import allotments against which they are allocated foreign exchange. Other items (luxury goods and items produced locally) are listed in schedules 2A and 2B and are subject to individual scrutiny. Importers may be assigned specific quotas, by product, subject to the availability of foreign exchange.

The new system has reportedly reduced the average wait for import license approvals from nine months to a current average of one to two months. The government has promised to increase the number of products included in Schedule 1A over time.

The vast majority of products imported into Kenya are subject to import duties. The average rate cf protection is about 35 percent, although tariffs on some products are as high as 100 percent. The purpose of import duties is to protect local manufacturers, to influence the factor mix of production, and to limit the import of luxury goods. Import duties also provide an important source of government revenue.

Import duties on raw materials, machinery, and spare parts raise the local cost of production and inhibit exports. Investors cite the high level of duties on capital equipment as a major constraint to increasing exports from Kenya. Even exports of unprocessed horticultural products are constrained due to the high tariffs placed on packaging materials and equipment. Many of these duties serve only as a source of revenue, since the machinery and other inputs involved are not produced locally.

A related constraint is the restriction placed on imports of used equipment. A special permit must be obtained from the Ministry of Commerce and Industry in order to import second-hand machinery or equipment. In order to qualify for such a permit, the importer usually is required to obtain a warranty or other type of guarantee from the supplier.

Sales tax is levied on most manufactured goods imported into Kenya. Like import duties, sales tax paid on imported raw materials and equipment raises production costs and reduces the export competitiveness of Kenyan goods. Sales taxes paid on certain inputs used in the production of goods for export are theoretically refundable. However, the application of this provision reportedly has been inconsistent. The same holds true for the supposed sales tax exemption of certain types of industrial and agricultural machinery.

3. Capital and Exchange Controls

Exchange controls in Kenya are promulgated by the Ministry of Finance and are administered by the Central Bank. Approval by the Central Bank is required for any purchase of foreign exchange by a Kenyan resident or company for payment to a nonresident. These controls apply to all capital transfers and other commercial transactions. The stringency with which exchange controls are enforced at any given point in time largely reflects available levels of foreign exchange.

Capital repatriation and the remittance of dividends and interest is quaranteed to foreign investors under the Foreign Investment Protection Act (FIPA). Investors can obtain from the Ministry of Finance a Certificate of Approved Enterprise which makes them eligible for FIPA guarantees. The certificate will state the equity and loan value of the investment. FIPA's language is sufficiently vague to allow the government a certain amount of leeway in interpretation. The Act states that the holder of a Certificate of Approved Enterprise "may" remit profits as well as the capital specified in the certificate. However, no specific time frame for remittance is specified.

In practice, the government has tended to limit remittances to a certain percentage of profits during any given period. The level allowed has tended to be reduced during periods of foreign exchange shortages. For the most part, foreign investors have been satisfied with the government's implementation of remittance provisions as specified in FIPA. However, there are certain aspects which reduce the attractiveness of FIPA guarantees.

First, the amount of the original capital investment, as specified in the Certificate of Approved Enterprise, is denominated in Kenya shillings. As a result, the value of an investment is subject to erosion due to devaluation of the shilling. Secondly, the Act does not allow for repatriation of capital gains. Under current procedures, any profits arising from capital gains are automatically blocked for 5 years. During this period, these funds must be invested in government securities at an annual interest rate of 2.5 percent. A final problem relates to reinvested earnings. While the value of the original investment is subject to FIPA guarantees, remittance of profits arising from reinvested earnings are entirely at the discretion of the Central Bank.

4. Tax Policies

The bulk of government revenue in Kenya is raised through taxes. The most important source is indirect taxes, including customs duties and excise taxes. Direct taxes only account for about 25.0 percent of government revenue. The corporate tax rate is currently 45.0 percent for locally registered companies and 52.5 percent for branches of foreign companies. Foreign-controlled firms registered locally are taxed at the same rate as local firms, but with dividend withholding tax pay an effective rate of 56.0 percent. The personal income tax system is progressive, with a top rate of 65.0 percent. Both personal and corporate income tax is applied on a unitary basis, with all sources of income aggregated for purposes of taxation.

A number of aspects of the current tax system are regarded as disincentives by investors. These include the narrow definition of allowable deductions (for example, deduction rules relating to investments in plant and equipment apply to factory space but not to storage space); the removal of employer retirement contributions as an allowable deduction; the lumping together, for tax purposes, of different sources of income; withholding tax on interest payable on off-shore borrowings; and non-deductibility of foreign exchange losses. The sum result of all of these provisions is the reduction of cash flow and profitability on investments.

5. Other Government Controls

In addition to those already discussed, a host of other regulatory and administrative controls affect investors. Many of these relate to the investment approval process and will be discussed in more detail below.

One set of controls which affects agribusinesses and manufacturers of consumer goods, in particular, involves marketing and distribution. With respect to manufactured goods, all firms are prohibited by administrative order from selling directly to retail traders. They are required to distribute their goods through licensed Kenyan wholesalers at administered prices. Since existing distribution networks are often inefficient, particularly in rural areas, many manufacturers find that this distribution requirement seriously constrains their ability to market their products effectively. This rule also deters foreign firms from making investments aimed at improving marketing and distribution channels.

A number of products, including sugar and salt, must be distributed through the government-owned Kenya National Trading Corporation (KNTC). Distribution by KNTC is often inefficient due to the prolonged cash shortages often encountered by the company's 500 small distributors. Government-owned East African Portland Cement, for example, persuaded the government to establish a parastatal cement marketing company after it found that KNTC distributors were failing to stock cement.

The government is also heavily involved in the marketing of agricultural products through its parastatal marketing boards. Parastatals are involved in the distribution and sale of wheat, maize, coffee, tea pyrethrum, cotton, sisal, sugarcane, rice, beef, and dairy products. Firms involved in the processing of any of these products must buy the raw goods from the marketing board at administered prices. Similarly, firms or individuals wishing to invest in production of any of these products are required to sell their output through the parastatal marketing boards.

The requirement that investors in the production or processing of most agricultural products must buy and sell through parastatal marketing boards often raises their production costs and limits their operating flexibility. Even in a case such as processed pork, which is not controlled, production is often constrained because pig growers must buy feed at controlled prices from a parastatal company which itself faces production problems, due to the fact that it must buy its inputs from the National Cereals and Produce Board.

V. INVESTMENT POLICIES AND PROCEDURES

A. General Investment Laws and Regulations

A number of Kenya's basic laws and regulations provide guarantees to investors. In general, no distinction is made between local and foreign investors in the application of guarantees or in the granting of incentives.

Section 75 of Kenya's constitution provides a basic guarantee against expropriation of private property without full and prompt compensation. Affected parties have direct access to the Supreme Court and have the right to remit the full amount of compensation to any country of their choice.

Guarantees to foreign investors are embodied in the Foreign Investment Protection Act of 1964 (FIPA). As discussed above, FIPA gives foreign investors the right to apply to the Ministry of Finance for a Certificate of Approved Enterprise which entitles them to the protections and guarantees included in the Act. These guarantees currently include the right to transfer the following out of Kenya:

(1) The profits, after taxation, associated with the investment of foreign assets.

(2) The original book value of the capital investment, as stated in the Certificate of Approved Enterprise plus re-invested post-tax profits.

(3) The principal and interest associated with any loan specified in the Certificate.

The Certificate itself states the name of the approved holder, a description of the enterprise, and the equity and loan values of the investment, and, in the case of a joint venture, the foreign-owned percentage of the total investment. Before the Ministry of Finance will issue the Certificate, the investor must obtain approval from the Central Bank to bring foreign exchange into Kenya and must prove that the investment assets have actually entered the country.

There are certain restrictions placed on foreign investments by various laws and administrative decrees. Foreign investors are not allowed to own agricultural land or beach property unless a special exemption is granted by the President. In practice, such exemptions have generally been granted for investments in agribusiness, particularly if production is intended for export. Foreign investors are not permitted to borrow locally more than 20 percent of the value of their investment. Many foreign firms argue that this restriction constrains their ability to raise operating capital. They would like to see the allowable level of local borrowing raised to 100 percent of the foreign equity value of an investment.

B. The Investment Approval Process

Prospective investors are required to obtain a wide range of approvals prior to setting up operations in Kenya. Most of the approvals must be obtained separately from various offices or ministries, and receiving one particular approval often requires evidence of receipt of one or more others. Some approval requirements are mandated by acts of law. Others derive from administrative requirements established by particular ministries. The number of approvals in the latter category has reportedly increased in recent years.

As best as the project team was able to determine, no single, clear statement of the investment approval process exists anywhere in Kenya. The rules and criteria governing individual approvals also tend to be vague or unavailable. Investors report that it may take as long as three years to obtain all of the approvals required to establish a business in Kenya. As a result, many investors ignore certain approval requirements, or set up operations and then go about seeking required approvals. This has led to a number of instances of investments being blocked or liquidated after substantial commitments have already been made by investors. In one well-publicized instance, a large pulp and paper project involving substantial international participation abruptly was ordered to cease operations after several million dollars had already been expended. The investor was under the impression that all required approvals had been obtained and had gone ahead with the project, enlisting financing from the

International Finance Corporation and other lenders. The cancellation of this project created a substantial amount of negative publicity about Kenya's attractiveness as an investment site.

The specific approvals required for any particular investment vary, depending on the type of business involved and the nationality of ownership. Some of the required approvals have already been discussed, but will be mentioned again briefly. In general, almost any type of investment is likely to require one or more of the following approvals:

1. Land Use. Unless the existing title to a given piece of land specifies its use for the type of business contemplated by the investor, a "change of use" approval must be obtained from the Commissioner of Land. Industrial buildings cannot be erected unless the land is zoned for commercial use and building plans must be approved by the relevant City or Municipal Council or by the Office of Physical Planning in the Ministry of Works, Housing, and Physical Planning.

2. Utilities. If electricity is not supplied by the Kenya Power and Lighting Company, the investor generally requires permission from the Ministry of Energy and Regional Development before establishing a local generating capacity. Similarly, a permit to extract, store and use water must be obtained from the Ministry of Water Development. If no telephone or telex communications facilities are available, a license must be obtained from Kenya Post and Telecommunications before setting up radio telephone service.

3. Transport. A license from the Transport Licensing Board is required to operate a vehicle for commercial transport of goods or passengers. Special movement permits are required for the transport of certain agricultural goods.

4. Trade License. Most types of businesses require annual trade licenses from the Ministry of Commerce and Industry. Trade licenses normally specify -- in general terms -- the type of business that may be

undertaken. Unless otherwise indicated on the license, the holder is permitted to engage in business activity only in "general business areas." The definition of general business area covers most major cities and towns.

5. Import License. As discussed above, the import of goods into Kenya requires an import license. The present procedure is that applications for import licenses are considered jointly by the Ministry of Commerce and Industry and the Central Bank.

6. Export License. With a few limited exceptions, all exports from Kenya require an export license or approval from the Central Bank. Exports of certain commodity goods also require a special license from particular Ministries (e.g., minerals -- from the Mines and Geological Department, horticultural produce -- from the Horticultural Crops Development Authority, etc.).

7. Work Permit. No person can be employed in Kenya unless he or she is a citizen of Kenya, or, in the case of a "resident", is in possession of a valid work permit. Work permits are obtained from the Immigration Department. The Department has reportedly tightened procedures for the granting of work permits in order to promote "Kenyanization" of certain administrative and management functions.

In addition to the above, investments in particular economic sectors may require other approvals from various authorities. A few illustrative examples are listed below:

Industrial Projects. The required approval of the Ministry of Commerce and Industry for projects with investment in excess of 5.0 million Kenyan shillings was recently abolished. For smaller projects, an application for approval, accompanied by a detailed feasibility study, must be submitted to the Ministry of Commerce and Industry. In addition, any "factory" must be registered with the Chief Inspector of Factories.

Investments in Pharmaceuticals. Approval must be obtained from the Ministry of Health.

Investments in Fertilizer or Animal Feed. Approval must be obtained from the Ministry of Agriculture and Livestock Develcpment.

Investments in Tourism. General approval is required from the Ministry of Tourism and Wildlife. In the case of a hotel investment, a license is required under the Hotels and Restaurants Act.

Investments in Banking. As stipulated in the Banking Act, a license is required from the Ministry of Finance, which issues banking licenses in consultation with the Central Bank.

The Ministry of Commerce and Industry is reportedly contemplating steps to streamline the approval process. It is widely agreed that any steps in that direction would be welcomed by investors and would help to improve the attractiveness of Kenya's overall investment climate.

C. Investment Incentives

Kenya grants few general incentives to investors. Most of the incentives that are available are actually exemptions from various restrictions or controls previously discussed. Explicit incentives currently offered to investors are the following:

Export Compensation. Under the Export Compensation Act, companies exporting from Kenya are eligible for a grant of 20 percent of the FOB value of most exports other than agricultural products, petroleum, and chemical products. Exports with an import content of over 70 percent are also excluded.

Implementation of the scheme has been irregular. When it was first introduced, the grant was set at 20 percent of FOB value. However, in June 1982, the scheme was temporarily suspended retroactively. Subsequently, the scheme was reinstated at a rate of 10 percent. In 1984, the rate was raised to 15 percent with a further 10 percent incentive for increases over the value exported during the previous year. This system proved overly complicated, and the level of compensation has been returned to a flat rate of 20 percent.

The payment lag for compensation ranges from 4 to 18 months. The Customs Office and the Central Bank have been acting in concert to streamline the procedure, but the payment pipeline is reportedly still six months behind schedule. Part of the delay apparently stems from discoveries of compensation being granted on the basis of fictitious export invoices.

Investment Allowances. New investments are normally granted a 20 percent investment allowance to be applied against their corporate income tax. In the case of investments outside Nairobi or Mombassa, the allowance is 50 percent. These allowances are roughly equivalent, respectively, to a two-year and a five-year tax holiday.

Other Incentives. As noted above, most of the other so-called incentives available to investors are, in reality, exemptions from particular controls or regulations. One example is the exemption of most exports from sales taxes.

The IAPC and others have put forth various proposals for additional, explicit incentives to encourage new investment. Most countries do offer a basic incentive package which is much more comprehensive than that currently available for investments in Kenya. It is the view of the project team that an expanded package of incentives could be an effective tool for encouraging new investment in Kenya, particularly if the package were directed toward particular targeted industries or products such as horticulture exports and labor-intensive manufactured exports.

VI. MAJOR CONSTRAINTS TO INVESTMENT

Any business climate, whether located in a developed or developing country, possesses advantages and disadvantages to private sector investment. These include resource availability/shortages, cost structures, market sizes, capital costs and other factors associated with doing business. Variables of a strictly economic nature have been described previously in this report. This section concentrates on the policy-induced constraints confronting current and prospective investors in Kenya.

The approach used in this section is the following. First, the nature of the investment constraints will be discussed, including the types of investors viewed as adversely affected, and the expressed adverse impact of the factor involved. Most of these issues are well known to the Kenyan government and business community, and are by no means present in Kenya alone.

Second, the theoretical "optimal" or "first best" solution to easing or removing the constraint will be presented. This does not suggest that ideal solutions are possible or even desirable, given current realities and desired goals in Kenya. In most cases it is clear that each "optimal" situation involves costs as well as benefits to various groups within the economy. The term "optimal" is defined as it would be from the perspective of investors, whether domestic or foreign. The project team will use as a point of reference the consensus view of investors interviewed and surveyed worldwide by the project team (in some twenty developing countries), and the studies of other researchers.

Finally, the section will include, where possible and appropriate, certain steps (i.e., "second best") that might be taken to begin to remove the constraints identified. It is the right and responsibility of the government, in consultation with the business community and other interested groups, to examine, design, and implement policies affecting the operation of private enterprises. In summary, this section will describe investment constraints as they currently exist, posit an ultimate target from the viewpoint of investors, and raise some suggestions on how the process from the actual to the ideal might be initiated.

A. Price Controls

Nature of Constraint

Administered price controls are high on the list of complaints of most investors currently operating in Kenya. The administration of these controls is seen as inefficient and arbitrary, at least by those firms which were not granted price increases at levels requested or within time periods deemed sufficient. The problem faced by producers is simple: costs for inputs, including labor, capital goods and raw materials continue to rise, but these prices cannot be passed on to consumers.

The stated goals of price controls are to contain inflation and to sustain standards of living for the ultimate consumers of basic goods. There is another rationale. Producers of many goods are provided a monopoly or near-monopoly position due to administered barriers to entry. As a result, in a completely unregulated market they could neglect efficiency measures and still exact high prices and "monopoly rents" from consumers. Therefore, price controls in practice act to restrain pricing decisions by companies not subject to the discipline of domestic or import competition.

Optimal Solution

The business community as a whole prefers a complete deregulation of price controls, to generate economic activities on the basis of true costs and market prices. Complete freedom from price control is not present in any economy, however, including those which are market oriented. Prices affect not only production but also consumption, and the welfare costs associated with high prices for basic goods and services may exceed the efficiency gains of market-determined prices. In addition, in the case of

Kenya, producers would like to have it both ways. That is, any business person would like to have the prices of inputs controlled, but the prices of outputs decontrolled.

Possible First Steps

The Kenyan government clearly desires to protect the standards of living of the general public, especially those in lower income brackets, and also to maintain price stability. Price decontrol is difficult under any circumstances. However, one way to initiate the process is to undertake an exercise to place products into a simplified set of categories. Basic goods and services would consist of subsistence food products, low-cost forms of clothing, housing, and medical supplies. A short list of these essential items would be developed on the basis of a survey on the consumption patterns of the poor. These items would be the last decontrolled. Luxury consumer goods would be be the first, and the definition of "luxury goods" would be broadly defined to include all non-essential items. Intermediate goods would fall in between. All goods would be subject to time-bound price decontrol. The controls could be phased out gradually, but some countries have found that one-time decontrol is most efficient and in fact least destabilizing. Experiments with specific product categories could be undertaken to determine likely effects for broader categories of goods.

If producers are to receive the benefits of freed-up prices for their output, they should also be subjected to the rigors of competition. In other words, monopoly producers should not be granted the advantage of price decontrol until potential competitors are allowed to enter the market. Therefore, restrictions against new investments in particular product categories and/or imports of those goods should be eliminated prior to the time at which prices are decontrolled.

B. Import Duties and Quantitative Restrictions

Nature of Constraint

All Kenyan investors complain about trade controls. Most agree that duties on imports of machinery and raw materials and spare parts (not available in Kenya) are far too high and thereby deter new investments. Import substituters, however, feel that duties on import-competing products are not high enough and that administered barriers of entry to these goods are skirted. As with price controls, most firms employ "situation ethics" -- that is, they want duty free entry of goods they need, and absolute restrictions on imports against which they compete.

The government has several motives for maintaining import controls. First, tariff revenues are important components of budgetary resources, and major efforts are underway to contain expenditures and enhance government revenues. In addition, due to continuing foreign exchange shortages, policy measures are required to control overall imports and also allocate scarce foreign exchange. Finally, the Kenyan government has adopted an explicit policy to protect existing producers in a version of the well-known "infant industry" argument.

Optimal Solution

From the viewpoint of investors in general, the ideal situation would be the virtual absence of tariffs and quantitative restrictions, although domestic producers will fiercely defend any level of protection they can achieve. This solution is not viable in any country, for both political and economic reasons. The "second best" option undertaken in most countries is to adopt graduated levels of tariffs, with higher duties on so-called "luxury goods" and lower tariffs on needed raw materials and capital goods (not in competition with domestic firms), with intermediate goods falling somewhere in between. From a standpoint of economic efficiency, however, most countries should be moving in the direction of a common tariff level (perhaps 10 to 20 percent), which not only generates government revenue, but also provides a modicum of protection against imports.

Possible First Steps

To meet revenue and foreign exchange objectives, Kenya must clearly maintain a fairly high structure of tariffs until budget and payments constraints are eased. However, these problems will never be solved until greater levels of domestic investment and exports are achieved, neither of which are likely to occur under the current policy framework. Therefore, efforts should be made to develop trade policies as tools to achieve appropriate structural changes. A first step would be to prepare calculations of actual revenues generated by tariffs levied on different categories of imports, particularly those used as inputs in domestic production. Second, the business community could be canvassed to indicate which raw materials and capital goods are needed most but are subject to high duties.

On the basis of this information, the government could develop a list of commodity priorities for tariff reductions. The project team feels strongly that duties on capital goods and certain raw materials have effectively inhibited firms from engaging in the export of non-traditional commodities, such as processed food and labor-intensive manufactures (e.g., textiles, apparel, leather products, and other products). The priorities for tariff reductions (or some other form of tariff rebate) should be reserved almost exclusively to exporting firms. Revenues foregone and foreign exchange expenditures resulting from such a policy shift could be sought from other sources such as structural adjustment funds from donor countries.

The export compensation programs operated by the government are seen by some as an adequate export promotion measure, even though some investors complain about administrative delays. However, many would-be exporters, particularly those in smaller scale enterprises, face a "Catch-22" situation. Not only do they suffer from a lack of marketing expertise and experience in exporting, but also they cannot afford the start-up costs associated with bringing in new equipment financed through foreign currency loans and including considerable duties and sales taxes. The ultimate proof of these "barriers of entry" into the exporting market is Kenya's low level of exports other than traditional commodities.

C. Administrative Procedures

Nature of Constraint

Government interference of any form is anathema to private investors, but is necessary to direct economic activity and preclude or at least control fraudulent behavior on the part of businesses. Firms of all types and sizes complain of an excessive amount of bureaucratic red tape associated with nearly all business transactions.

In Kenya, these problems appear to be uniformly distributed among efforts to start up a new venture, conduct normal business over time, obtain needed imports, and (in the case of foreign investors) remit dividends, capital and capital gains. In short, the problem is felt from start to finish.

Optimal Solution

The situation desired by all businesses is clearcut -- the absence of all administrative controls. More than one executive has suggested to the project team that Kenya would quickly become a regional haven for investment if bureaucratic procedures were abolished. Business leaders claimed that fears of initial capital outflows are unwarranted.

The elimination of all government controls in Kenya is neither feasible nor desirable, at least in the short run. The controls are seen as necessary to keep the behavior of unscrupulous individuals or firms in check.

Possible First Steps

Fraudulent behavior exists in all societies, in the form of tax evasion, bribery, theft and corruption, and should be kept to a minimum. However, the benefits of administering a comprehensive control system (even if it is effective in curbing fraud and abuse) may in some cases be more than offset by the costs borne. The costs are not so much those associated with the administration of controls, but rather the benefits foregone because investments are not made.

The best first step to deal with administrative controls is to state them explicitly. For example, the precise procedures for approvals of new investments are nowhere stated. The same holds true for numerous requirements administered by nearly every government ministry in Kenya. The explicit statement of these policies and procedures would increase the transparency of government decisionmaking, which is considered extremely important to investors. Transparency means simply that rules and procedures are clearly visible and known to all interested parties. This is especially true for those firms and individuals which do not have sufficient access to decisionmakers. The statements should include not only the specific statutory or regulatory requirements to be met by new and existing investors, but also the procedures to be followed by the business entity and government agency in the satisfaction of those requirements.

Following efforts to make rules transparent, agencies should seek to increase the efficiency of their administration. One method for accomplishing this is to specify a maximum period for agency review, following which approval is automatic. Another approach would change "approvals" to "vetos." In other words, agencies would not have to literally approve each application, but would have the ability to deny or postpone applications in which discrepancies are apparent.

Another way to streamline the regulatory process is to convert approval systems into registration systems. For example, new exporters require export approvals for each shipment until they become regular exporters. The documents are required for purposes of foreign exchange control and administration of export compensation, but necessary approvals are often delayed, thereby resulting in lost cargo space, crop spoilage, etc. An alternative system would be to deliver and register the documents at port areas.

D. <u>The Investment Approval Process</u>

In addition to the cumbersome nature of administrative procedures in general, investors cite the investment approval process, in particular, as a major constraint to new investment. A case study put together by the IAPC lists 33 separate approval steps that were required of a particular investor. The number of required approvals stemming from administrative or Ministerial decree rather than acts of law has been increasing. It has been suggested to the project team that this proliferation may stem in part from the elimination of the New Projects Committee which -- while cumbersome -- at least gave representation in the investment approval process to relevant functional ministries.

Adding to the disincentive associated with the large number of required approvals is the fact that almost all of them must be obtained from a different authority, and many require prior receipt of one or more other appprovals. Furthermore, the investor is often unaware of the need for a particular approval because comprehensive rules governing the process are not available anywhere, nor are rules or criteria available to guide the investor in applying for many of the specific approvals required.

<u>Optimal Solution</u>

The optimal solution to this problem would be elimination of investment approvals altogether. In many countries, investments are reviewed only in cases where the investor seeks special benefits or incentives from the government. Even then, the purpose of the review is only to determine whether the investor qualifies for the benefits being sought. These countries take the view that, to the extent that an investor is willing to risk his or her own capital, and is able to meet the appraisal requirements of co-financiers, that entrepreneur should be allowed to invest in any venture other than those which the government may specifically wish to proscribe (e.g., weapons manufacture). Under this type of approach, industrial licensing becomes a registration rather than an approval procedure.

Under the current condition, the elimination of all investment approvals in Kenya is not politically feasible, and may not even be completely desirable. However, steps could be taken to streamline the process.

Possible First Steps

The most obvious first step is clarification of the process. The government could publish a clear statement of the approvals required by investors, the rules and criteria governing each approval, and the procedures for application. A related step would be to include in the letter of approval received by an investor from the Ministry of Commerce and Industry (the usual "first-step" approval) a list of all other required approvals and approving authorities. Once all of the listed approvals were obtained, the investor would be free to set up operations and would be guaranteed that, except for unusual circumstances, no additional approvals would be required. Existing rules requiring annual renewal of trade licenses, transportation permits, etc., would not be affected by the guarantee.

A more advanced step would be to centralize the approval authority in one particular government office, or in a committee representing a number of departments or ministries. Approval by the committee would substitute for all existing approval requirements other than those embodied in acts of law.

E. Other Constraints and Recommendations

In addition to the major constraints just discussed, a number of other factors identified by the project team -- either through personal interviews or through its literature review -- act as deterrents to investment in Kenya. Many of these were described by investors as nuisances rather than fundamental constraints. However, taken together these factors do reduce the attractiveness of Kenya as an investment site. Some of these factors have already been addressed in the body of the report, but will be reviewed again here in terms of their impact as disincentives to investors.

Work Permits

A number of foreign investors interviewed by the project team cited difficulties in obtaining work permits for expatriate personnel as an operating constraint. This difficulty has reportedly become more pronounced in recent months.

Like other developing-country governments, the Government of Kenya wishes to promote the advancement and training of its own citizens. Foreign companies should be encouraged, and in fact generally welcome the opportunity, to turn over certain management functions to local citizens over time since employing local management usually lowers the cost of operations. However, during the early stages of an investment, or when a company is facing operating difficulties for one reason or another, investors generally wish to retain flexibility with respect to the personnel they place in key management positions. Withholding or delaying the approval of work permits for expatriate managers and technicians does little in practice to create opportunities for Kenyan nationals, and in fact may reduce such opportunities by discouraging new investment.

Several countries have been successful in encouraging foreign investors to submit a plan for training and phasing local employees into middle and even top management positions over time. However, during the first 3-5 years of operation, these companies are generally given complete freedom to bring in foreign personnel, subject to normal immigration procedures.

Land

Difficulty in obtaining land is another constraint often identified by investors. It has taken some investors as long as two years to find a suitable site to set up operations. Small investors in particular often find that the appropriate sites that are available are beyond their financial capabilities. On the other hand, the affordable land that is available often is unequipped with necessary infrastructure such as access to water, electricity, and communications facilities.

Kenya Industrial Estates has been successful in overcoming the land constraints faced by some investors. However, others have found that KIE's facilities don't meet their required specifications or are too costly.

An effective mechanism for dealing with the land constraint, while allowing investors maximum flexibility in choosing the type of facilities they require, is the creation of industrial parks. Land is set aside for industrial or commercial use, and basic infrastructure is put into place. The land is then made available for purchase (or rental) by investors, subject to the requirement that it be developed within a specified period of time.

Lack of Locally-Produced Intermediate Goods

The production of intermediate goods in Kenya is not very well developed. In fact, most manufacturers prefer to import intermediate goods, even when they are locally available, due to cost factors and desires to minimize dependence on competitors. This exposes manufacturers to the vagaries of foreign exchange costs and availability.

A number of countries have successfully implemented programs to encourage local production of intermediate goods. The Ministry of Commerce and Industry, or some other group in Kenya, could conduct research and surveys to identify the supply needs of local and foreign manufacturing firms. Once these needs are clearly identified, brief reports could be prepared reviewing the level and source of demand for each product, local manufacturing feasibility, technology requirements, and marketing scale required. These reports need not be detailed feasibility studies. Once completed, the reports could be made available to the IAPC, KIE, and other groups who deal with investors.

A program of this nature was established in the mid-1970s by the Irish Development Authority, and was successful in identifying 24 viable industrial projects, 60 percent of which were undertaken by small local firms.

Lack of an Investment Incentive Package

Most countries that have implemented successful investment promotion programs have provided investors with some type of basic incentive package. In many cases, investors review various alternative country sites before they choose the final location for setting up operations. While incentives are rarely the "make or break" factor governing an investment decision, they can sway the balance in the choice between two otherwise comparable investment sites. In addition, they indicate the host government's active interest in stimulating private investment. The only real incentive currently offered to investors in Kenya are export compensation and either 20 percent or 50 percent investment allowances, depending on the location of the investment. While Kenya should certainly not "give away the store" by providing overly generous incentives, a slightly more comprehensive package than currently exists would provide a signal to investors that the government is serious in its desire to promote increased private sector involvement in the economy. The Kenyan government should consider the adoption of a standard investment incentive package patterned along the lines of those inducements provided in East Asia: A five-year income tax holiday, with an optional grace period before the holiday begins; accelerated depreciation; exemption from import duties; and rights to retain earned foreign exchange. These benefits would be extended only to investments in "preferred" categories of activities (e.g., exporting).

The incentive package could serve as a useful tool for attracting investments in certain targeted industries or product categories. For example, incentives such as the implementation of in-bond manufacturing for export, the establishment of export processing zones, or the establishment of a "fast-track" approval procedure for investments in production for export could be effective in boosting foreign exchange earnings and demonstrating the efficacy of an export orientation.

Lack of Clarity and Stability of Investment Policy

One complaint voiced by virtually every investor interviewed by the project team is the need for greater clarity in government policies and procedures. To a certain extent, the problem is one of a gap between stated policy on the one hand and implementation on the other. Much of the problem stems from the fact that rules and procedures are often not written down at all, or are presented in such vague terms that they allow for a wide range of interpretation. This results in inconsistent application, which in turn creates the perception or actuality of discriminatory treatment.

In the view of the project team and others, one of the single most positive steps that could be taken by the Government of Kenya would be the promulgation of a clear "Investment Policy Statement." This need not take the form of a formal investment code, although a formal code would certainly be welcomed by investors. The advantage of a formal investment code, from an investor's perspective, is that it provides a clear and comprehensive statement of the "rules of the game" with respect to investments in a given environment. Thus the investment code should specify all of the laws and regulations with which an investor must comply so that the investor is able to calculate the cost of compliance when undertaking an internal feasibility or prefeasibility study. At the same time, an investment code generally provides a statement of the incentives available to investors, along with eligibility requirements, so that these too can be integrated into the investor's calculations. Essentially, the purpose of an investment code is to make it clear to investors what the government expects for private enterpreneurs, and what the latter can expect from the government.

What is most important is that the government set out in one form or another a statement of its basic attitudes toward private investment, the guarantees and incentives that will be provided, and the rules and procedures associated with establishing new investments.

It is equally important that investors be given assurance that investment policies will remain stable over time. While an appropriate policy environment for private investment is critically important, of equal significance is stability of policy over time. Investors want to know that the "rules of the game" will remain the same over the life of their investment. Investors are often willing to accept less than ideal policy conditions as long as they can be sure that these policies will remain stable over time.

Conclusion

The purpose of this report has been to present -- in as objective a manner as possible -- a picture of Kenya's investment climate as seen by investors. We have tried to point out both the positive and negative aspects of the investment climate, and to offer suggestions aimed at building upon positive features and reducing or eliminating deterrents.

Our basic conclusion is that the potential of Kenya as an investment site is considerable. Objective conditions in terms of land, labor, and political stability, as well as geographic position, are quite positive. More importantly, most of the negative conditions that do exist are within the control of the government. It is our perception that the need for a number of policy changes in the investment area has been recognized and accepted by the government. What is needed now is for the types of clear, responsible steps that have been taken in the field of macroeconomic policy in Kenya to be extended to the field of investment policy.

The project team believes that if appropriate policy steps are taken, Kenya could become the premier investment site in Africa over the next five to ten years. The important point is to begin immediately with a combined program of policy reform and initial investment promotion.

VII. POTENTIAL INVESTMENT OPPORTUNITIES

The operational conclusion of this report is that the potential for new and expanded productive investments in Kenya is substantial, and covers a wide range of sectoral possibilities. The policy recommendations previously presented seek to remove existing deterrents to investment and take greater advantage of available opportunities. That is, the benefits to be derived from policy reform initially are increased levels of private investment, ultimately leading to greater levels of domestic employment, income, foreign exchange receipts, and government revenues.

The achievement of these benefits will entail costs, but the costs are far smaller in magnitude than the gains foregone by continuing to adhere to inward-looking policies. Kenya's producers can compete internationally, although the challenge of strong international competition should not be underestimated. What remains clear, however, is that Kenyan firms will remain at a disadvantage vis a vis competitors until policy-induced obstacles are removed.

Over the long run, numerous opportunities for investment will emerge to satisfy local demand, the potential of which is for all intents and purposes unlimited. However, effective demand in Kenya is currently confined by lack of domestic purchasing power. Since the prospects for internally-generated demand are constrained by low per capita incomes, the project team concludes that a major priority should be placed on stimulating new investments in the export sector, which in turn will provide income and foreign exchange from abroad.

If Kenya is to undertake an export-oriented investment strategy, the natural question then becomes, "where are the opportunities, in terms of product categories?" The initial appropriate answer to this question is that under the correct economic and policy conditions, the private sector (including both indigenous and foreign investors) will discover the specific areas where Kenya has export potential. The government should not seek to predetermine the precise export industries which should be encouraged.

Since this first answer is probably not satisfactory, the project team has taken the next step to conclude that there is no secret as to where the greatest export potential lies for Kenya. The simple answer is to assess and review Kenya's true comparative advantages and capabilities, as other successful countries have done.

Possessing only a central geographical location and industrious laborers with which to work, entrepreneurs in Hong Kong have focused on the export of light manufactures (textiles and apparel, toys, electrical lights, etc.) and international services (shipping, banking, trade, etc.). With its strong natural resource base, Brazil has exported commodities (coffee, sugar, leather, etc.) and products from heavy industries. Companies in the Dominican Republic have employed the local labor force in assembly operations and in such services as data processing.

From the perspective of resource endowment and comparative advantage, Kenya is comparable to the economy of Taiwan. Taiwan's firms began in the 1950s with the export of agricultural products, moving from staples (rice and sugar) into processed fruits and vegetables. Entrepreneurs then shifted their efforts to the production of labor-intensive consumer goods, once again evolving from simple manufactures toward an extensive array of products, including those with high technology content. In the areas of both agribusiness and manufacturing, Taiwan's investors gradually moved "up the production ladder" toward increasing sophistication and local value added. It is likely that Kenya's private sector can follow a similar pattern, pursuing opportunities for exports which utilize Kenya's comparative advantages in agriculture and labor-intensive manufacturing.

Kenya has considerable potential for increasing agricultural exports, but this outlook is subject to two caveats. First, careful consideration should be given to the possibility of declines in the production of food staples for domestic consumption resulting from shifts in investments toward cash crops. Second, inefficiencies in the agricultural sector (expensive or erratic supplies of inputs, insufficient credit facilities, transportation bottlenecks, etc.) will have to be corrected to assure competitive production and marketing structures.

If these problems are adequately addressed, Kenya could eventually become a major exporter of agricultural commodities. Existing production of coffee and tea would serve as an export base on which to expand and diversify. Exports of fresh fruits such as pineapples, oranges, melons, strawberries, and perhaps bananas could be increased. In addition, investors could seek opportunities in rapidly expanding markets for "exotic fruits" like mangoes, avocados, guavas and coconuts. Profitable ventures could also be found in processed fruits (juices, jams and jellies, candies, and dried fruit), which are becoming increasingly popular among consumers in industrial countries.

Additional opportunities in agribusiness could include exports of canned vegetables (french beans, tomatoes, etc.), nuts (macadamia, cashew and ground nuts), soybeans, mushrooms, oil seeds (sesame, sunflower, etc.), and a variety of processed meats and meat products. Many of these crops can be grown in areas and at times of the year that are not disruptive of food production, and hence could provide supplemental incomes for farmers. In addition, they could act as a foundation for investments in upstream (seeds, farm implements, fertilizer, etc.) and downstream (packaging, marketing, processing, etc.) activities.

The potential for exports of manufactures clearly rests in the area of labor-intensive production of consumer goods. Areas identified by the project team include cotton and wool textiles and apparel, footwear, leather goods, consumer electronics, metal fabrication, toys, handicrafts and sporting goods. A number of these product categories offer opportunities for "backward linkages," or the utilization of Kenya-produced raw materials.

Kenya's entrepreneurs could and should seek renewed ventures in assembly operations to serve the PTA regional market. However, the project team feels that the short-term prospects for growth in these markets is relatively limited. Therefore, an appropriate strategy would be to concentrate on industrial countries as markets for Kenya's exports. The countries of the European Community (and perhaps the Middle East) represent the most feasible targets for sales of fruits, vegetables and other agricultural products. Manufactured goods could be sold throughout the industrialized world. Special emphasis should be placed on taking advantage of policy-induced opportunities resulting from generalized systems of preference, the Lome Convention, underutilized quotas, etc. In these areas, Kenya should be in an attractive position vis a vis competitors in East Asia and elsewhere.

It is one thing to suggest the existence of export-oriented investment opportunities, but quite another thing to indicate how this potential can be exploited. Kenya's prospects in this area are currently hindered by anti-export biases. Therefore, the project team strongly feels that efforts to remove these constraints are necessary.

One final recommendation, supported by widespread consensus in Kenya, is the need for the equivalent of one or more export processing zones, perhaps one for agribusiness and one for manufacturing. Utilizing a standard set of incentives such as tax holidays, exemptions from import duties on machinery and inputs, and favorable factory sites and infrastructure, export zones have served many countries as a mechanism for shifting from import substitution to export promotion strategies. While they provide immediate benefits in the form of new employment and foreign exchange earnings, their greater utility is in offering an example of export-led growth potential. Under a proper policy climate, Kenyan investors could make great strides in capitalizing on Kenya's nascent export potential, and thereby provide economic gains to the country as a whole.

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

BIBLIOGRAPHY

Kenya Government Publications/Documents

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Other Documents

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Elliot Berg, et. al., "Evaluation of USAID's Structural Adjustment Program in Kenya," (draft), May 27, 1985.

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Business International, "New Opportunities for Trade and Investment in East Africa", May 1985.

Appendix C

INVESTING IN KENYA: SOURCES OF DATA

A. BASIC MACROECONOMIC DATA

National Income Accounts: These are most readily available in the Statistical Abstract published by the Central Bureau of Statistics (CBS) of the Ministry of Economic Planning and National Development. It includes data on GDP by industrial origin, GDP at constant prices, capital formation, balance of payments, etc. Data is aggregated into the normal classifications of economic groups, industries, etc. Revised data can be obtained in later editions of the Abstracts or in the Economic Survey published also by CBS. These are probably the most reliable sources of macroeconomic data.

Trade: Trade statistics are to be found in the Statistical Abstract and include exports, imports by principle articles, country of destination and origin, values and quantities, exports by industry of origin, price and quantum indices, import and export indices, etc. These data are reasonably aggregated. Disaggregated data on trade (imports, exports, re-exports, and duties) up to the 6 digit level of the SITC code by value, quantity, and country of origin/destination can be obtained from the Annual Trade Report published by the Statistical Branch of the Customs and Excise Department. The latter document is the best and most comprehensive source of trade data. The library in the Kenya External Trade Authority section of the Ministry of Commerce and Industry also provides data on exports and markets abroad. Another source of information is the Horticultural Crops Development Authority, which provides data on the production of and markets for Kenya's fresh and processed horticultural products.

Some data on Trade and National Accounts can also be obtained from the Annual Reports, Quarterly Reports, and the Economic and Financial Review of the Central Bank. Central Bank publications are currently the best sources of monetary and financial data.

Capital Formation: The Statistical Abstract provides data on capital formation by industry, at both current and constant prices, by type of asset, and by both industry and type of asset.

Investment Opportunities: The Annual Report of the Industrial Survey and Promotion Centre, Ministry of Commerce and Industry, used to be a good source of data on investment opportunities in Kenya. However, ISPC no longer seems to exist.

Finance: The best source of financial data is the Central Bank. Most current data on public finance are given in the Annual Budget speech of the Minister of Finance in June of each year.

Manufacturing: The Statistical Abstract provides data on manufacturing, including production indices by industry, summaries of the 1977 and 1972 census of industrial production, large scale firms by industry, etc. The Directory of Industries published by CBS (3 editions so far, in 1970, 1974, and 1977) gives information (names, addresses, outputs, etc.) on the firms in the various industrial categories (by ISIC codes). However, this directory is largely out of date, as the latest published figures are for 1977 when the last census of industrial production was undertaken. Various issues of the Statistical Abstracts are available in the CBS Library, Herufi House, 2nd floor. The library also keeps issues of the Directory of Industries, CBK Annual Reports, and the Financial and Economic Review.

Government Revenues: The best sources of data are issues of the Exchequer Returns published by the Treasury and available to the public. The Customs & Excise Department also has comprehensive data on import duties collected by Government.

B. REGULATION OF INVESTMENTS

The Foreign Investments Protection Act, CAP 518 1981 (1967), is the basic law covering foreign investment in Kenya. Under this Act, Foreign

Investors are required to apply to the Minister of Commerce and Industry for a certificate that the venture is an approved enterprise. The Minister issues a certificate when he is satisfied that the investment will further economic development or is of benefit to Kenya. The Act also requires registration at the Attorney-General's Chambers under the Registration of Business Names Act. Instruments by way of chattels mortgage, (Bills of Sale) should be registered under the Chattels Transfer Act CAP 28 within 21 days of creation.

Details on Commercial Legislation are referred to:

Registrar-General
Attorney General's Chambers
30031 Nairobi
Harambee Avenue

OTHER SOURCES OF INFORMATION

Adela, F.T. "Guidelines on Promotion of Direct Foreign Investment", Paper prepared for the UNIDO/UNCTC Workshop, Nairobi, February 1983.

Carlsen, John, "Danish Private Investments in Kenya", Institute of Development Research, Copenhagen, 1973.

Herman, B. "Some Basic Data for Analysing the Political Economy of Foreign Investment in Kenya", I.D.S. Paper No. 112, Institute for Development Studies, University of Nairobi, July 1971. Discusses sources and size of Foreign Investment in Kenya, use of local savings and employment of local partners.

Ibanda, Margaret, A Case of Multinational Investments in Kenya: The Soft Drinks Industry, M.A. Thesis University of Nairobi, 1979.

Industrial and Commercial Development Corporation: Annual Report and Accounts, 1983/1984.

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Gives a brief overview of Kenya, including Kenya's political organization, economic conditions, tourism, trade, etc. and other matters that are of interest to a potential investor, such as labour and employment, finance, etc. This document used to be a good starting point for potential investors but is now very much out of date.

Kenya, Republic of, Laws of Kenya: The Foreign Investments Protection Act CHAPTER 518, Government Printer, Nairobi, 1981.

Gives protection to certain approved foreign investments.

Lal, Deepak. 1. Appraising Foreign Investment in Developing Countries, Heinemann, Educational Books, 1974.

Presents guidelines for appraising investments and contains case studies of cost-benefit analysis in India and Kenya with consideration of non-economic factors involved.

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Looks at the period before 1945 and shows the process of domestic accumulation of capital, and foreign investments. The areas and types of these investments are discussed and some detailed case studies done of Baumann and Co., Magadi Soda Company, and Brooke Bond.

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