Sugar prices: The inside story

Christmas festive season sugar shortage was 'artificial'

By **Jackson Okoth**
and **Samwel Kumba**

As consumers try to recover from the December festive season's inordinately high sugar prices, *The Financial Post* has established that a well crafted syndicate involving licensed distributors, supermarket chains and speculative traders conspired to make a killing by hoarding huge stocks of sugar supplies with the intention of pushing up retail consumer prices.

Andrew Otieno, the Kenya Sugar Board (KSB) Chief Executive Officer, says unscrupulous dealers took advantage of a drop in local production stocks to withhold supplies from the market and raise prices.

A number of factors contributed to the sharp decrease in sugar production. Firstly, heavy rains set in during the month of October 2006, and the millers experienced an immediate reduction in supply of mature sugarcane for crushing due to the deteriorated access to outgrowers' farms.

"Due to the poor weather conditions, movement of cane to the factory for processing was severally hampered leading to insufficient deliveries to the milling factories," says Otieno.

The organisation that was most severely affected was Mumias Sugar Company, which produces more than half of Kenya sugar.

''Despite the increase in production efficiency and factory capacity, the Mumias plant was unable to get adequate cane supplies. Further more, the competition from jaggeries for cane in the West Kenya zone compounded the shortage problem," says Otieno.

The country's production of sugar went down and the stocks hit a bottom low. In the meantime, the bulk of domestically produced as well as the imported sugar was being released into the market.

The syndicate, privy to the statistics of public demand and the sudden reduction of production capacities of factories, took advantage of the situation.' In November, the demand shot up ahead of the Christmas festive season, the sharp drop in sugar stocks persisted.

Come December, the syndicate struck.

"What has happened is that, as a result of the drop in supplies and increase of demand, a number of distributors have engaged in speculative buying and hoarding. The aim is to push up prices substantially and take advantage of consumers," says Otieno.

"At this point, we had already depleted all the imported stocks from the Common Market for Eastern and Southern Africa (COMESA) duty free facility - 90,000 metric tonnes," explains Otieno.

Sugar price at the shop had risen from an average of between Ksh 50 and Ksh 60 per kilo from January 2006 to November 2006 before shooting to Ksh 120, an increase of over 100 per cent in barely a month. To make matters worse, there has also been a pressure upwards on domestic consumer prices of sugar attributed to the rise in global sugar prices.

Available figures indicate that world sugar prices have shot up from US$ 175 per metric tonne (or Ksh 12.25 per kg) to US$ 480 (or Ksh 33.60 per kg), somewhat easing to US$ 410 (or Ksh 28.70 per kg) at the present.

"This scenario has also had an effect on applying an upward pressure on prices both regionally and locally", says Otieno.

Trouble set in at the beginning of last year when prices begun to move from the ex-factory price of Ksh 2,500 per 50Kg bag or Ksh 50.00 per kilo. Soon, large distributors hiked this price level to Ksh 3, 100 per 50 kg bag during the year, widening the gap between wholesale and retail prices by a whooping Ksh 1,400 bag.

The sharp increments were triggered by distributors and supermarket chains, who took advantage of the declining supplies to charge the difference between ex-factory and retail, i.e. Ksh 3, 100 at factory and Ksh 4,500 at retail for the 50 Kg bag, a difference of Ksh 1,400 per 50 kg bag.

"Essentially, the distributors were taking advantage of the low supplies in the market to charge more. While one could buy a kg of sugar at Ksh 60 from the factory, distributors were selling to wholesalers at between Ksh 100-120 per kilo, making 100 per cent profit," explains Otieno.

Somehow, a government circular on imports facility from the COMESA that showed sugar was not due until March this year had reached some people. The large distributors and their kith, the speculative traders, became well aware of it. To put pressure on domestic prices, sources say, they withheld supplies.

However, the Uchumi Supermarkets Managing Director (MD) Jonathan Ciano while admitting that the chain store buys its sugar supply directly from the sugar millers, distanced the supermarket from any acts of hoarding the commodity.

"We sold all the sugar we bought but only regulated the amount each customer would purchase so as to ensure that every customer got something. We did not hike prices although we factored costs into the ex-factory prices. For instance, we are currently selling at Ksh 150 per 2kg of sugar while our ex-factory is Ksh 138," says Ciano.

The MD calls on the governmernt to rid the industry of speculators because it has the capacity to do it.
A Francis Mwaura of the purchasing department at Nakumatt Supermarkets denies any involvement of the chain store in the hoarding racket, maintaining that they had only loaded transport costs on their prices.
"For instance, we are currently retailing sugar at Ksh 75.00 per kilo and buying the same from Mumias Sugar Company at Ksh 68.75," says Mwaura.

Solution

As a remedial measure, the Ministry of Agriculture, through KSB, has now fast-tracked duty-free imports from the COMESA region. In an Official Gazette Notice Number 296 of 12th January 2007, KSB has now recommended to the government to allow importation of duty free sugar from COMESA, ahead of an earlier scheduled date of 1st March 2007.
In a bid to ease pressure on supplies and hence prices, an import window has now been opened, effective from 1st February, this year to 20th February 2008.
This effectively revokes an earlier Official Gazette Notice Number 10005 of 2006 which scheduled the import period of sugar from COMESA to begin on 1st March 2007 to 20th February 2008.
Under the COMESA arrangement, importers of raw and milled white sugar will be allowed to import upto a maximum of 89,000 metric tonnes of sugar from the COMESA Free Trade area, duty free. Any excess above this is subject to 100 per cent customs duty.
For white refined sugar, the figure is 111,000 metric tonnes over the same period and any excess will also attract duty. All registered importers will be allowed to participate in this undertaking in a non-discriminatory, competitive and liberalized basis. No quota allocation will be used, in order to weed out speculators, in compliance with the COMESA protocol, Otieno disclosed.
Industry sources say it is extremely expensive for any single importer to undertake the exercise due to the huge cash outlay involved. At the close of last year, large multinationals involved in importation could only manage to bring in 30,000 tonnes of that import requirement.
Presently, there are over 50 registered importers of domestic sugar. Some 46 companies deal in importation of refined sugar while 20 firms are registered as exporters of sugar whenever there is a surplus in the country or good prices at international market, especially at the European Union.
But even before a ship has docked at the port of Mombasa lobbies and interest groups are already up in arms. Suspicion is already running wild that the move opens avenues for the politically connected importers and speculators to ride on the lucrative sugar importation gravy train.
Peter Kegode, the chairman of the Sugar Campaign for Change (SUCAM), maintains that the move is political.
"The ultimate beneficiary of this decision is the political class and the sugar cartels. If the government is sincere, then it should allow farmers themselves to import the sugar through their own agent. The profits accruing to the importers can then be used to cushion farmers against late payments for cane delivered to the millers", says Kegode.
He also mentions that the prevailing retail price of Ksh 100 per kg of sugar is by far the highest in the world, expressing fears that the domestic market may once again be flooded with imported sugar.
The SUCAM boss similarly blames KSB and the Agriculture Ministry for not taking adequate remedial measures in advance, to avert the current situation in the industry.
"The KSB and the Ministry of agriculture should have used their capability to warn of an impending shortage. It now appears that they lack forward planning strategies, despite the massive financial and human resources at their disposal."
It is obvious that as the economy expands at a high rate the per capita consumption of sugar as well as demand by the industry will also rise. The better strategy would have been to step up sugar production to meet the new requirement.
Kegode adds that with a deficit of an estimated 10,000 metric tonnes per month, it is not possible to substitute long-term planning requirements with an import strategy.
"The problem with this is that imports will lead to cash constraints in the sugar sector as imports replace domestic sugar."
He warns that studies have shown that it takes at least three years to clear debts to farmers arising from the decision to import sugar.
The lobby group also exonerates distributors from blame saying that they are basically middlemen in the sugar supply chain, who exist courtesy of the millers and the government.
"These distributors have thrived as a result of failure by the authorities to heed a call by the stakeholders to reform the sugar supply chain for the benefit of consumers and producers," observes Kegode.
Meanwhile, market intelligence reports gathered by our team indicate that traders, who have been hoarding sugar, are releasing the commodity into the market, in anticipation of imports from the COMESA region.
"We have seen a downward movement in prices to Ksh 75 per kilo in majority of the outlets. We should be able to get the price back to Ksh 65 per kilo to the consumer over the next few weeks", says Otieno.

"It is time for a commodity and future markets to be introduced to open up commodity pricing speculation to all," says Kegode.
Following lengthy consultations and meeting between the Ministry of Agriculture, the board and millers, recommendations have been made to factories to reduce their prices.
At the beginning of the year, factories were selling a 50 kg bag at Ksh 2,500 and still making profit. This increased to Ksh 3,100 per 50 kg bag by November last year. Now the industry regulator wants prices to move down to Ksh 56 per Kg on average or Ksh 2,800 per 50 kg bag, according to KSB calculations.
But Kegode says the move is not feasible since it amounts to intervention and yet the sector operates in a liberalised economy where prices are supposed to be determined by market forces. He adds that prices can be corrected by having the government roll out policy instruments to correct market imperfections. Presently, he argues, the sugar industry has been set as the preserve of the political class and rent seekers, who collude with cartels in the industry, to rip off consumers.
The authorities have also introduced measures allowing millers to sell their sugar directly to retail outlets in a bid to circumvent speculative distributor supply chains.
Plans are also underway to bring on board the Kenya National Trading Corporation (KNTC), currently under revival. Once upon a time, KNTC was the main distributor of sugar, if not of every commodity in Kenya. The intention is to utilise its storage facilities and distribution channels to conduit sugar from factories to retail outlets, in competition with other private distributor companies. At the present, it has over 19 outlets and stores spread all over the country. It is anticipated that KNTC will act not only as a distributor but also as the holder of soon to be constituted strategic sugar reserves. This is as the consequence of the Government's decision, through the Ministry of Agriculture, to authorize KSB to use part of the funds from the Sugar Development Levy (SDF) kitty to establish and manage strategic sugar reserves.
Otieno says that cooperation between the Board and Kenya Revenue Authority (KRA) has curbed excess sugar imports, mopping up all the excess supply in the market.
"Proposals are now being considered to establish a month's supply of strategic reserves to stabilise prices in the event of shortages or glut," reveals the KSB boss.
Essentially, the exercise will involve buying excess production from the milling factories and storing it with KNTC.
"A proposal being considered by KSB is to use KNTC stores and National Cereals and Produce Board (NCPB) warehouses to manage the strategic stocks."
But lobbyists led by Kegode suggest that Uchumi and Nakumatt supermarket chains to be used as retail outlets due to their elaborate distribution network.
"It will then be easier for authorities to monitor the margins made by these outlets, instead of using the moribund KNTC, an institution that lacks capacity and client base," he warns.
A market forecast indicate that as rains subside, there is likely to be an increase in production at various sugar milling plants over the next two to three months. Combined with the arrival of imported sugar from the COMESA, a sharp increase in domestic stocks is projected, leading to a downward pressure on domestic prices. Shall we expect the sugar price to Wanjiku to fall below Ksh 50?
Talk of the sweet commodity turning bitter and the sugar industry comes to mind.

Supermarket linked to sugar hoarding racket

By **FP team**

An organized clique of large distributors, including supermarket chains, has been singled as part of a group of speculative dealers engaged in hoarding of sugar to influence consumer prices.
Dr Romano Kiome, Permanent Secretary in the Ministry of Agriculture, in an interview with *The Financial Post* at his Kilimo House offices, fingered out some of the large distributors for holding back stocks of sugar from the market resulting in a steep rise in retail prices.

The racket game plan

As we approached the Christmas season, distributors begun to hold back stocks of sugar instead of releasing it to the market. The difficulty we faced, as we analysed the situation, was that some of the sugar distributors were also the large supermarkets," says Dr Kiome.
Further, market intelligence reports indicate that in the early days of December, a number of supermarkets began restricting the quantity of sugar bought by shoppers, thus creating a major anxiety in the market. Added to this, some of them, despite having regular supplies of sugar from the factories, delayed restocking their shelves, creating an illusion of sugar shortage in the country.
Interestingly enough, people were buying sugar quite readily from smaller retailers nationwide at the beginning. But later on, riding on the anxiety created by the big stores, the smaller retailer jumped on the bandwagon to raise the prices to Ksh 100 per kilo.
A surveillance bulletin issued by the Kenya Sugar Board (KSB) had shown that, during the month of December, the wholesale prices of sugar were stable at around Ksh 3600 per 50 Kg bag in Nairobi's

Eastleigh estate and surrounding areas. This is compared to a price of Ksh 4,500 per 50 Kg bag that was prevailing in other parts of the country.
KSB officials attributes this huge disparity in the wholesale price to unscrupulous distributors who receive transport subsidies from Mumias Sugar Company to supply North Eastern Province but end up offloading the entire stock in stores in Eastleigh.
According to Dr Kiome, signs of trouble first begun around the middle of December last year when authorities got wind of a plan by distributors to hoard sugar. Intelligence then indicated that distributors would take advantage of the then prevailing low stocks to manipulate prices.
"We established that distributors were planning to take advantage of factory closures and disruption in cane deliveries to hike prices", said Dr Kiome.
In the month of November last year, majority of sugar mills had closed down their operations for routine maintenance. Distributors were also aware that there was a cane transportation problem due to the heavy rains in the closing months of the year.

How profiteers evaded detection

Equipped with this information, the ministry directed the sugar board to craft a counter-strategy to lock out speculators and hoarding activities.
"One of the resolutions we arrived at was to have the factories open for 24 hours in order to increase the sugar stocks. As the hoarding continued, we instructed the board to issue a statement to the effect that we have noticed some funny behaviour in the sugar sector and we would not want anybody to behave badly as we were monitoring the situation," said Dr Kiome.
But as the festive season approached, supermarket chains changed tact to avoid surveillance by the ministry and regulatory officials by moving their sugar stocks they held to stores outside their premises. Meanwhile, these outlets continued to make huge margins from both distributorship and retail chains, making double profits in the process.
Counter strategy to lock out profiteers
At this point, the ministry intervened by recommending that retail outlets not to sell a kilo of sugar at more than Ksh 75. This had the effect of slowing down the upward slide somewhat with prices per kg dropping from Ksh 120 to Ksh 90 at the retail outlets.
After another round of meetings with sugar millers, the ministry decided to intervene further by taking over the entire supply chain to get rid it of unscrupulous dealers holding back supplies to the market.
In order to mitigate the supply and price conditions in the market, the ministry and KSB have now proposed a number of measures.
Notably, plans are underway to resuscitate the moribund Kenya National Trading Corporation (KNTC) Limited and appoint it as one of the distributors, alongside others, for more effective distribution through its established national network.
"The government is putting up a comprehensive plan of reviving KNTC. But as you know, the corporation was not in very good shape," says Dr. Kiome
In the past, KNTC used to do business with a number of factories, especially those involved in production of agricultural inputs such as seeds and fertilizer. Due to mismanagement and liberalisation, the corporation went on its knees for not servicing the huge debts incurred from supplies, including sugar factories.
Efforts are being made to clear debts owed to sugar factories to enable them use KNTC for distribution. Available figures indicate that KNTC owes millions of shillings to sugar factories. For instance, it owes Sony Sugar Ksh 5 million, Chemelil Ksh 15 million and Muhoroni Ksh 5 million, all relatively old debts.
Already, KNTC is being utilised by cement factories and it distributes building materials.
Meanwhile, amendment to the Sugar Act 2001 is at the drafting stage at the Attorney General's chambers. The government, as a matter of urgency, has now been urged to approve proposals aimed at rationalization of balance sheets of sugar companies as enunciated in the Sessional Paper on the Revitalization of the Sugar Industry, as a critical step towards privatization and a return to profitability and competitiveness.
"We have actually completed the policy document as well as the amendment Bill for the Sugar Act 2001 and we have submitted the Draft Bill to the Attorney General for drafting and the policy to Parliament for the next session," says Dr Kiome.
The ministry has also prepared a comprehensive Cabinet paper on revival of the sugar industry, giving specific recommendations on a factory by factory basis.
"Of course, you understand that this is the most indebted sector of the economy. The sugar mills owe various debtors with principal amounting to Ksh 17 billion which, including penalties and interests, amounts to about Ksh 37 billion," says Dr Kiome.
It is now being recommended that each sugar factory be restructured and their balance books cleaned.
"We also intend to come up with specific intervention plans especially for those debts owed to the National Bank of Kenya and the government, which built most of these factories," says the PS.
Also on the list of intervention measures is a long term strategy to privatize all the sugar factories, similar to what happened with Mumias Sugar Company, to make them more viable and able to repay debts and what

the government invested in them. Studies indicate that most of the factories are in good shape and have potential.

COMESA safeguards

With the industry anxious over the entry of duty free sugar from the Common Market for Eastern and Southern Africa (COMESA) states next year, Dr Kiome says Kenya has a case for the extension of the protection so that it can develop multipurpose sugar mills capable of producing different products, namely, sugar, alcohol and energy.

"We need to revitalize our factories to be multipurpose. If anything, this is a sector that supports about 6 million Kenyans and COMESA partners cannot just remove the protective measures. We have to safeguard our people," says Dr Kiome.

The sugar politics

Kenya' sugar industry remains one of the most highly politicized sectors of the economy, especially on the issue of sugar imports and individuals involved in them. To encourage more competition and eliminate profiteers, the list of licensed sugar importers has been increased.

Investigations reveal that the amounts involved are huge with no single individual capable of bringing in the whole lot, close to 200,000 metric tonnes. The haul is worth US$96 million, a cool Ksh6.7 billion.

Regional and global scene

By **Guchu Ndung'u**

Globally, sugar, just like oil, is prone to the international economics, politics and whims. And in Kenya, the situation is no exception.

Currently, Kenya has an agreement with the Common Market for Eastern and Southern Africa (COMESA) on sugar imports. Under the free trade facility (agreement), COMESA countries may export sugar to Kenya of up to 200,000 metric tonnes free of customs duty. Any exports above this are subjected to 100 per cent tax. The purpose of this excess taxation is to protect the local sugar industry. The tax waiver ends in February 2008.

But Trade and Industry Minister Dr Mukhisa Kituyi says the government has entered into negotiations with the trade block for a possible extension. It has taken the step upon realising that the local industry may not withstand the onslaught of duty free imports once the COMESA safeguards are lifted, since the imported sugar will be cheaper than the locally produced.

Some of the more efficient producers likely to hurt Kenya's more expensively produced sugar include

COMESA countries like Swaziland, Mozambique, Malawi and Zimbabwe are more efficient and cheaper sugar producers than Kenya. If allowed free access, they would hurt the Kenya companies in the market. However, though some do argue that it is beneficial to consumers to get the cheaper sugar, the COMESA treaty is the most destabilising to the survival of cane growers and millers.

Apart from COMESA, Kenya's sugar industry is also susceptible to developments within the Trade Organization (WTO) and African, Caribbean and Pacific (ACP) trade arrangements

First, developments in the European Union, where the sugar sector is highly subsidized, also have a significant impact on local sugar prices. Members of the EU do currently pay about US $1.8billion (Ksh 124 billion) per year in subsidies to sugar farmers. The EU also guarantees its farmers a price of 632 Euros (Ksh 56,880), which is three times the world price. It buys all the sugar the farmer has and puts it into storage, what is known as intervention buying.

More often, it then pays an exporter the difference between the world price and the higher European price and thus he able to sell the sugar in developing countries at a cheaper price than the cost of its production.

Pressure is now mounting for the EU to eliminate the subsidies to prevent the trade block from dumping cheap sugar on the markets of developing countries such as Kenya. This arises from the case filed by Brazil on April 2005 at the WTO where it was ruled that the subsidies are illegal. The EU then agreed, in June 2005, to slash the main subsidized price for white sugar by 39 per cent, and the price for sugar beets by 42 per cent, within two years from 2006.

The WTO ruling drew protest from the European cane farmers who argued that a cut in subsidies would lead to a loss of some 150,000 jobs and closure of over 80 sugar factories.

Similarly, a group of 20 sugar producers from the African, Caribbean and Pacific (ACP) group of countries, Kenya included, also protested.

ACP countries have privileged access to the EU market, which allows them to ship in 1.3 million tonnes of sugar per year to the EU, duty free, at a price of 524 Euros (Ksh 47,160) per tonne.

Currently, Mumias Sugar Company exports about 5,000 tonnes of sugar to the EU and would thus loose a millions of shillings in revenue if the WTO measures on subsidies are implemented.

Among the ACP states, Sudan exports the largest amount of sugar to the EU, estimated at 27,000 tonnes per year.
While Kenya's mills extract sugar as the main product from the cane, other leading producers have diversified their production systems to a multipurpose one. Most countries now produce alcohol, energy fuels and sugar.
In Brazil, for instance, sugarcane is mainly used for production of ethanol. The country projects to become energy self-sufficient this year, meeting its growing demand for fuel by increasing production from petroleum and ethanol.

Roads

Govt's Ksh 40 billion national road strategy

A report card on the Road Ministry's road construction efforts

Literally every Kenyan has an axe to grind with the government, and by extension, the Ministry of Roads and Public Works because of the many years they have had to put up with the sorry state of the country's road network. Some feel even now, little, if any, is being done to correct the situation. However, in an interview with our writers **Justus Ondari** and **Samwel Kumba,** the Chief Engineer, Roads, **Michael Sistu Mwaura Kamau**, maintains that a lot is being done in fixing the roads across the country. Excerpts.

Question: Engineer Kamau, how do you manage to deal with the demands of various stakeholders and the general public concerning roads?

Answer: Many of our people just want answers. They know that things cannot change overnight. What is important, therefore, is to provide truthful information. So, if one's demand is difficult I say, 'It cannot be done, or 'I do not have the resources'. Sometimes I even say, 'I do not know when it can be done, but if I get the resources, I will do it'. This satisfies many of them. People want to know that you are truthful.

Q. How challenging is your office?
A. I have not been to others (offices), but from my nearly one year's experience as chief engineer, it is a very challenging one. There is a lot of work that needs to be done. Sometimes I am like a Commissioner of Lands because of the number of land issues I have to deal with. For instance, I have to explain the demolitions of people's houses that are on our road reserves.

Q. There have been complaints that little, if anything, is being done to improve the country's roads. What is your take?
A. I really do not know what to say. It is interesting that Kenyans have not learnt to glorify what is good. We tend to lament a lot at the slightest discomfort. For example, if someone hits a pothole, then even if for the next 100 km the road is good, it will still be full of potholes.
But, as a ministry, we have been doing a lot over the last four years so much so that it really saddens me when I hear the condemnations against us. And the continuous bashing with no word of encouragement could discourage anybody. At the ministry, we always endeavour to talk through actions. That is why we are all over with maintenance since the rains having just subsided.
If you go to Nairobi's Thika Road, our people are very busy patching it up since it was fast becoming pathetic. Unfortunately, people want the rains to stop today and tomorrow all roads are re-carpeted. That is not practical.
We have a very rapid response to emergencies as was seen when the Kisii-Kisumu Road was recently cut off by floods. On the overall, whereas we might not be at our best, we have really improved in terms of performance.

Q. But the ministry has left some roads to degenerate to the extent that it is cheaper to reconstruct them afresh as opposed to repair?
A. Maintenance has not been our strongest point. As much as we are busy reconstructing roads and building new ones, greater attention should be given towards maintaining the existing infrastructure.
However, from now onwards, we are prioritizing maintenance. In the current year's budget, Ksh 1.7 billion was set aside purely for periodic maintenance of bitumen roads. This involves going back to a road and giving it a new lease of life. For example, we are going to spend about Ksh 200 million on Nairobi's Lang'ata Road to mend all the potholes, drains and give it a new carpet. This will be done after every five years. We are doing this for most of the roads in the country. So far, we have awarded six contracts. But there is also routine maintenance which is basically sealing potholes and drainage systems where there is need without doing any major repairs.

Q. What is your budget allocation this year?
A. Our budget was originally Ksh 33 billion but we received additional funding from the Kenya Roads Board (KRB) pushing our total budget to Ksh 40 billion.

Q. And how much of that money are you likely you spend?
A. Our spending in the first quarter was about 20 per cent but in the second quarter, we are doing well. The rains, however, affected us because they started in early October last year and most contractors did not work. But we are positive that since we have awarded most of our huge contracts, we may be able to spend a good proportion of our allocation.
There are only two major contracts which have not been awarded. Between them, they have about Ksh 1 billion. But we are hoping that at the end of this financial year, they would have been awarded.

Q. So what percentage of your budget are you likely to spend?
A. We should be able to hit over 90 per cent target. Remember, we also have room to re-allocate funds where donor assistance is not involved.

Q. The ministry has been accused of annually returning funds it is allocated to the exchequer for failure to spend and yet many roads need attention?
A. This is not necessarily the case. For example this year, all the projects that are directly funded by the Government of Kenya (GoK), without any input of development partners, are moving on very well.
The problems arises when development partners are involved since at every stage, we have to send to and wait to receive various documents from the donors before proceeding. Some of these institutions do not have sufficient officers to approve the documents.
We have had instances where the development partners stay with documents for over nine months. For example, we sent some documents in September 2005 and only received them in June last year from a donor.
That is why, for instance, last year we did not use most of the funds which were components of the development partners. As we speak, I am having one such contract documents of which we have evaluated and want to award the contract but the conditions donors are raising are completely contrary to what we had tendered for with their approval. How do we alter the regulations after we have opened the bids?
These are the areas where we experience problems. Others withhold payment to contractors where the financiers are raising fresh issues than those prior to the award of the contract. Even some of them are extraneous issues not related to the road but touching on the greater government.

Q. What is your comment on variations in contract costs?
A. There is nothing wrong with the variations, either by increasing or declining, so long as they can be justified since there are many variables that we consider. For instance, rains can worsen the state of a road and that can lead to a variation.
However, the current procurement rules allows a variation of up to 15 per cent beyond which it calls for a re-tendering process.

Q. Do you really have enough engineers to ensure that no shoddy job is approved?
A. I do not really need more engineers in government. There are so many brilliant engineers in Kenya including retired ones to ensure that a good job is done on any road works in the country.
So, even if our capacity in the ministry is being depleted through natural attrition and retirement, shoddy work cannot be done. If in government we were to restrict ourselves to regulatory work, then all we need are consultants for us to just supervise them.
Last year alone, we issued over 40 consultancies in various fields and this indicates that we have adequate capacity.

Q. So how do you ensure that substandard roads are not constructed?
A. I do not know what would motivate an engineer to do substandard work. Specifications are there and we have facilitated our engineers well. We even have mobile laboratories at every site to ensure that standards are followed. If we have substandard work, everything is there to be seen.
However, it is important to note that roads are not designed to the same standards. One thing that we have failed to totally curb as a ministry, and that is also right under my docket, is overloading. It has been our biggest challenge since we destroy our roads very quickly through overloading.
We have not managed properly our weighbridges and this is one thing that I am going to prioritise this year.

Q. Does the ministry have a provision in its tendering process concerning local contractors?

A. Contrary to popular belief, local contractors can compete effectively. If anything, we had the affirmative action in the past with the likes of the defunct National Construction Company which took us nowhere. I think people who get into construction perhaps have to be told that it is not a hobby. Even so, and unfortunately, you cannot force people to go into construction if they do not want.
But under the new Public Procurement and Disposal Act, there is bias towards locals in all wholly-Kenyan government-funded projects of up to 10 per cent. This means that a Kenyan firm could win by bidding for, say, Ksh 91 million as opposed to a Ksh 100 million bid by a foreign company.

Q. Quickly surveying the North Eastern part of Kenya, there seems to be no tarmac roads. What is the ministry doing about that?
A. We advertised and even awarded contracts for construction of some roads in the area. The project is funded by development partners but as we finalize the discussions, we decided to go ahead and do the first 20 kilometres which is now tarmacked. Soon we shall also invite bids for the road from Isiolo to Moyale and especially the first section running for 126 kms.

Q. Southern Sudan is emerging as a business hub but many local business people complain about the poor status of the roads between the two countries. What is being done about this?
A. We do not have a bitumen road from Nandapal to Juba on the Southern Sudan side. It is all gravel. What makes the Kenyan side look bad is the fact that the road is a bitumen road with some potholes. But during its construction, it was not intended to handle huge traffic since we had little trade activities with Southern Sudan. Perhaps we were not very strategic as we were negotiating for the Sudan Peace Agreement.
But there is a study being conducted by the World Bank which involves designing infrastructure to that country. We are hoping to get a development partner to assist us in funding the project.

Q. What happened to the much hyped about road by-passes? Are they a hoax?
A. First, we have the southern bypass, which is part of the Nairobi toll road, running from the temporary United States embassy on Mombasa Road through Lang'ata and Ngong' roads to Rironi, near Limuru.
This is part of the big project involving dualing of the road from the Machakos turnoff to Athi River turnoff currently under construction and then an overpass through Mombasa Road, Uhuru Highway to Westlands.
Also there is the improvement of the road from Westlands up to Rironi. For this road, we are opening the bids on February 16 this year. However, the concessionaires have requested us to move the date to April and we may oblige because they are doing a little more preparations.
The Eastern bypass is still in progress. We have two bridges that we are working on. We are also trying to interest the Chinese government to take up the bypasses and seal the missing link.

Q. Can you comment on the Mlolongo demolitions?
A. We are supposed to construct at Mlolongo modern weighbridges where vehicles weigh while in motion. If an overload is detected, the vehicle is diverted off the highway for static weighing. This means we need a huge parking, rest rooms and other roadside amenities for drivers.
That is why we are taking back our 50 metres road reserve. We are only going to relocate Mlolongo Primary School.
Let everybody learn to respect the rights of others and, therefore, not interfere with our road reserves. You interfere with it today and whoever will be the chief engineer will catch up with you even 20 years down the line. Demand in space for roads is only going to increase.
Where we do not have land, we compensate. (While exhibiting a Ksh 151 million payment voucher) I am also paying for people's land I am taking over. So, if I do not have an alternative land for a road, I buy it at market rates. Then why should I allow people to settle on my piece of road reserve?

Q. The first pilot project of the concrete road, Mbagathi Way, is almost complete. What is the future of concrete roads?
A. There is no reason why we should not have concrete roads. Except for the initial investment which is staggeringly high, the life cycle of concrete roads is much longer and hence cheaper than bitumen roads in the long run.
But in a country where we are competing for resources with other sectors, it will be difficult to have many concrete roads. But if we had money, concrete is the way to go.

Q. Are certain areas favoured in road resources allocations?
A. Which area would be favoured? We normally carry out feasibility studies to ensure there is a reasonable rate of return on the investment before constructing any road. Personally, I do not know of any area which is favoured in terms of road construction.

Q. Central Province has been cited as receiving special attention?

A. That is not true and neither is it factual. There may be more roads in the area and more economic activities but favouring does not arise.

Q. And how can you justify cases where you construct roads and only goats are sleeping on them or are used for drying cereals?
A. Roads can be built for economic, social, security and political reasons and there is nothing wrong with that. Take for instance the president of a country who wants to meet fellow presidents at his farm. Is the government going to construct helipads for all the visiting heads of state? In such a case, an airstrip can be built for political reasons for that matter.
Sometimes, we can build roads for security reasons. Look at the problems we are having in Somalia. If Kenya wanted to deploy its military personnel to the border as is the case today, how would it do it without roads?
Even in our current budget, there is provision for security roads. The case in point is Suguta Valley, North Eastern Province. This is where bandits escape into with stolen animals. We are going to construct roads there so that security personnel can easily intercept cattle rustlers. Such a road might not have any economic reasons.
The government does not always have to explain these things.

Q. What do you tell Kenyans?
A: I remember a while back, one Abuki Bw'Ongeri sought for a farmer's views on sugarcane farming. The farmer replied: "If the government can give us loans through the Agricultural Financial Corporation (AFC), the whole world will be planted all but cane". I would think the same. Give us the resources and we will go places in terms of road construction.
With good roads, we have better access to health, agriculture, tourism and security, among other sectors. Generally, roads touch on all the other sectors. When a road opens up, there is settlement accompanied by several other activities.
But it would be imprudent to think that other sectors can be denied resources for us to construct roads. But it is our wish that as government revenue increases, our allocation also increases. This is because a shilling invested in roads normally has greater ripple effects across all the other sectors. And we hope everybody sees things in that perspective.

Entrepreneur

Tapping into the net

Two entrepreneurs curve for themselves a niche out of the digital divide

By **Mwangi Maingi**

Kenya's position in the information communication and technology (ICT) world three years ago was, to say the least, reason enough for despair. Many viewed ICT as an elitist passtime patronized by a few well-to-do in society.
However, it was different proposition for Ralf Graf and Mackay Ochieng, the proprietors of SasaHivi Systems Limited.
Graf, an expert in multimedia designs, which according to him to meet Ochieng, abandoned left is job for the world of entrepreneurship. As an art director, he was coordinating a designer's workshop for the youth in Kenyan slum areas with Came Media Limited, a Europeans non-governmental organisation.
"Though the earning was good in the advertising and multimedia industry, I longed for a sense of personal achievement by exploiting my full potential especially in the world of Internet services," says Graf.
Ochieng, a University of Nairobi Bachelor of Education (B.Ed) graduate, was 'hurled' into the world of business from his then teaching job at Rift Valley's Kipkabus region by the infamous tribal crushes.
He later decided to move to Nairobi where his host introduced him to the IT world. Ochieng developed in the IT field by taking courses while working in Sarket Business Systems as a web and server maintenance manager.
He resigned in 2001 to start his own company, Mackphilisa Computer Systems, where his future partner,Graf, appeared as a client.
Struck by the excellent service Ochieng offered him, they soon realized that they were cut from the same material as far as business ideas were concerned.
The duo saw an opportunity to put their skills into practice and established SasaHivi Systems, which offers services including web hosting, web design and domain names.
Established in 2003, Sasahivi systems was one of the first kenyan government-licensed vendors for VSAT (Very Small Aperture Terminal), an earthbound station used in satellite communications of data, voice and video signals.
The idea could be traced back to the duo's research endeavours that were partly necessitated and aided by their vast experience in the ICT sector, specifically in Internet services.

"We identified the need to seal the void created by the ever-constant demand for quick, efficient and quality service in internet-related technology and these"triggered us to give it a try as a venture," says ochieng.
"As the region got more and more integrated into the global economy, the demand for quality it products increased as did the need for quality connections to the rest of the world. We saw a potential in the industry to serve a global market," concurs graf who doubles as a co-director to the company.
Graf says Kenya has one of the fastest developing ICT sectors today and an abundant supply of an able workforce especially in IT. The main problem is that only few of them can identify the opportunities.
"While the business of Internet was formerly left to Internet Service Providers (ISPs), great expansion has been witnessed over the last few years and this has necessitated more professional and customer focused approach to the way information is handled online," Belgium- born Graf avers.

Challenges
As a start-up with hopes of setting up an Internet related business, initially it was not a bed of roses for the budding entrepreneurs.
Ochieng observes that since their initial goal was to specifically provide Internet services via Vsat, the strains of the high cost of equipment and regulations attached to the sub-sector almost led them to regret their decision to venture into business.
Again, as Graf reveals, by the time the company got established, only a few business owners and chief executives appreciated the need for IT, particularly website services.
"The issue was not the selling, creating or implementing of the technology; rather it was people's attitudes which made our dreams appear unrealistic. Convincing potential clients on the need and importance of a website was no easy task," adds Ochieng, a 36 years old entrepreneur.
This led the dual to diversify their services noting that the fast development in the ICT sector calls for extensive needs by their clients related to Internet services.
However, Graf reveals, by looking beyond the immediate challenges and teamwork has seen the company withstand the developments and turbulence of the present day IT market.
"To make it, among other factors, we strictly ensured that our employees are highly accomplished professionals, with extensive experience in African business practices," he says.
So far, the company has managed to attract a rich list of clients including the government through its various ministries and institutions such as the Ministry of Water and Central Bank of Kenya (CBK). Others include the Italian Institute of Culture, Bank of Uganda, the Mentor Group, East Africa Breweries Limited (EABL), Panari Hotel, Safaricom E-learning and Fina Bank.
Graf says there is great potential in the ICT sector especially to new investors due to the emergence of the e-commerce in almost all the sectors of the economy.
"With the non-stop e-business computing having been unleashed and extended to the most remote corners of the country, demand for website services to individuals, companies, non-governmental organization (NGO) and other institutions is almost inexhaustible," concurs Ochieng.
Noting that ICT is a powerful tool for development, Graf calls on the government to incorporate ICT training in its policies, especially in the education curriculum.
The duo feel the ICT sector provides a huge potential to clients who need to reach a wider market.
"It is a medium that is relatively easy to develop, capitalize and market because it 'sells' a company to the world 24 hours a day, seven days a week," says the entrepreneur.
He adds that aspiring entrepreneurs need to exploit advances in technology to tap into their full business potential.
Due to its near universal importance, Ochieng urges budding entrepreneurs to invest in the ICT sector. But there is a rider.
"One needs to envision a future full of excitement, challenges and opportunities in the business sector to have the drive to make it," he concludes.

Promotions to be strictly on merit, Akaranga

By **Samwel Kumba**

Nepotism, corruption, favouritism and inequality are some of the superlatives that have been used in the past whenever the issue of either employment or promotions in the civil service pops up in any discourse.
As it works towards sprucing up the much-maligned, fairly and unfairly, public service, the government is promising that meritocracy will be the rule of the game.
As the person charged with the responsibility of overseeing the docket, Public Service Minister Moses Akaranga is vowing that Kenyans cannot be taken for a ride and the civil service will be serving them under a performance-based management.
Consequently, staff promotion would be based on merit, objectivity and performance-driven.
No wonder, recently Akaranga was in the thick of things as he met staff from his ministry to establish schemes of service with clearly spelt out guidelines on career growth by defining work activities, reporting and supervision arrangements.

First to roll out is a scheme of service for information and communication technology (ICT) officers and drivers which have been finalized.
“We are already implementing a pay policy for the public service with emphasis on equal pay for equal work. It is the government’s desire to attract, retain and motivate qualified personnel. We are determined to ensure sound management of an affordable wage bill by having a clear link between pay and performance,” explained Akaranga.
A study on harmonization of allowances in the public service is almost complete. The study aims to enable the government implement a pay policy that is transparent, simple and efficient with allowances that facilitate duties of the public servants.
“As part of the ongoing initiatives aimed at improving service delivery, this ministry has spearheaded introduction of counseling services to the public service. This is in line with the best practices of managing human resource and the commitment by the government to ensure it has a well motivated work force.”
Akaranga acknowledged that public servants need guidance and counseling to enable them cope with certain experiences that negatively affect them psychologically. They include dysfunctional work behaviour, HIV/Aids pandemic, alcoholism and other substance abuse, family related issues like domestic violence, work motivational issues and disasters like fire outbreak, floods, bomb blast, conflict related issues, for example ethnic and land clashes.
The Permanent Secretary in charge of the Directorate of Personnel Management (DPM) Titus Ndambuki reiterated that only effective, efficient and ethical civil servants will be rewarded in the future.
“We will always recognize and reward good performers in several key areas of innovation in service delivery, effective team work, time management and output and value to the customer,” Ndambuki said.
To improve the civil service capacity, Ndambuki reaffirmed the government’s commitment to equipping public servants through training both locally and abroad while offering concurrently short job related courses for all cadres including drivers, support staff, secretaries and information and communication technology officers.
“Each day in the office should be geared towards new and innovative ways in which we can effectively serve the public.”
Ndambuki declared that 2006 was momentous year since it saw all government ministries implement various reforms aimed at improving public service performance.
Akaranga acknowledged that there are others who did not perform as expected and subsequently gave them another chance to improve. He observed that performance improvement is a continuous process.
“Evaluation on performance should be done on a daily basis.”
The minister cited stagnation of staff, poor work ethics and mindsets and negative attitudes as key challenges to the government in its quest to modernize the civil service.
He said computerization of all government operations in an effort to embrace the tenets of e-government although good labour relations are equally important.
“The government supports efforts that would create cordial industrial relations in the public service. In this regard, negotiations with the civil servants union are ongoing to generate consensus on terms and conditions for unionisable employees. The negotiation results will be announced by the next budget.”

Stocks

NSE’s forgotten twin baby

Billions are generated the stock exchange but one segment remains in the wilderness

By Guchu Ndung’u

For the last two years, the Nairobi Stock Exchange (NSE) has been on an upward swing culminating in the breaking of the 6,000 NSE Index mark early this month. In last year only, the NSE created a whopping Ksh 791 billion for the investors.
Good news for all, right? Wrong.
Not all are smiling.
“Only a negligible part of this wealth created last year went to investors in the Alternative Investment Market Segment (AIMS),” Polycarp Ngoje, a researcher at Suntra Investment Bank, notes.
In December, for instance, AIMS contribution was a mere one per cent of the issued shares and a measly 0.98 per cent of the total capitalisation of the bourse.
Like a neglected baby twin, AIMS is reeling from marginal trading activity despite the growth of the stock exchange’s main market.
Ask any new investor about the ‘Alternative Investment Market Segment’ and he would have no clue. Yet, he would recite to the very fine detail about the latest fad in town - the English Premier League. For a market boasting of excess liquidity, that is indeed strange.
But what is AIMS and why does it not capture the interest of investors?

For the novice in stocks, AIMS is one of the three segments in the stock exchange that include the Fixed Income Market Segment (FIMS) and the Main Investment Market Segment (MIMS). MIMS has the most stringent regulations for listing. For, example, the net assets of a company to be listed cannot be less than Ksh 100 million immediately before a public offer, its paid up capital must be over Ksh50 million, and have audited financial statements for the preceding five years.

On the other hand, it is easier for companies to list in the AIMS section of the stock market. The rules are much more relaxed. For example, the lower limit for net assets is Ksh 20 million and minimum paid capital of Ksh 20 million. AIMS also makes it easier for companies who have operated for a shorter period; the audited financial statements requirement is for the preceding three years only.

Companies listing in the NSE are required to maintain minimum diversification standards in their shareholding. While the more regulated MIMS section stipulates that at least 25 per cent of the shares must be held by not less than 1,000 non-employee shareholders, AIMS listing has a much lower limit of 100 shareholders.

In addition, MIMS aspirants must also have declared profits after tax and paid dividends to shareholders in at least three years of the five years prior to application. On the other hand for AIMS, an issuer need only to have been operating in the same kind of business for at least two years with one year of which in profitability and a good potential for growth.

Surprisingly, despite the many incentives and opportunities that companies have, especially for the small and medium enterprises, no initial public offers (IPO) has have recently taken place at the AIMS, and of the new shareholders few have tried AIMS. In fact only nine out of the 52 companies listed at the NSE are in AIMS.

So, why the phobia?

History seems to be the major cause of image problem of the AIMS and thus, like a skunk, few, in fact only a daring few, want to go near it.

The AIMS was created during the restructuring of the stock exchange in 2001, when benchmarks on capitalisation for listed companies were established. When the regulations came into place, some companies who could not meet the MIMS requirements were relegated to the AIMS.

"They did not meet the capitalisation and profitability requirements. Instead of deregistering them, they were placed under AIMS as they restructured towards meeting the requirements," explains Fred Mweni of Tsavo Securities Limited.

The original NSE script of the reason for the introduction of the AIMS was to provide access to the capital market to the small- and medium-sized companies with high growth potential. However, since the since the debacle of 2001, the image of the AIMS as a zone for the relegated became engraved not only in prospective investor's but also in companies aiming to list at the bourse. Furthermore, since landing there, the nine companies' take off to MIMS has come to naught.

Subsequently, the number of shares trading in some AIMS companies is very small, if not negligible, which has in turn exacerbated their unavailability in the market. This, Mweni says, has had a domino effect on all other factors, leading to the stagnation in prices of such shares.

"The less shares trade, the less they gain speculators, and there are many in the market, who want to buy a stock today and sell tomorrow when the prices rise. Less trading easily puts off such traders."

Institutional buyers, he adds, are put off by the scarcity of shares and the lack of information on the companies listed. Then, the fact that the price is ever constant means their dividends are also low. Stocks like the Kenya Orchards, for instance, have stagnated at the Ksh 5 per share for the last one-year with minimal trading of the share taking place.

"Few fund managers, thus want to touch those shares as they will have to justify the reason for their buying them if they do."

Most of the operations of companies listed in the NSE are still unknown and their profile consequently remains unknown. And the kind of industry that a company is in will determine the profitability and risk of investment.

"Otherwise people would not be buying some highly priced shares at the main market and leaving the AIMS listed ones trading at Ksh 5," observes Mweni.

To vindicate him, companies like The Standard Group and the Express Group, which launched rights issues in 2004, have seen their shares improve because of the high profile they have since cultivated in the market. Following their perceived turnaround, the two companies have applied to have their shares de-listed from the AIMS and appear at the MIMS.

Critics and pundits, however, agree that the AIMS has a role to play, and what is needed is to revamp the segment and to increase awareness of its role.

"The NSE needs to have a business development programme to support struggling companies," recommends Mweni.

On their part, Ngoje adds, the companies need to be more visible by, for instance, publicly announcing their results. "This will make heads turn and notice them," says the researcher.

Mweni calls for the introduction of an Over The Counter (OTC) trade at the NSE for companies that are big enough but cannot qualify for a listing. "Such companies can then gradually graduate to the AIMS and then the MIMS."
This, he adds, will formalize the trade of shares of some companies that, though their shares do trade, are not listed at the NSE. They include the Cooperative Bank of Kenya and Kenya Tea Development Agency (KTDA). Holders of such shares usually do over the counter trade with buyers mostly with little benchmark on how the shares are priced.
In such a scenario, either the buyer can get them at inflated prices or the shareholder sells at prices below the market value.
"There are some who want to buy shares at Ksh 100 per share while there are some who are willing to sell it at Ksh 60 a share but there is no avenue for them to meet. The OTC can provide for such an avenue," explains Mweni.
Then slowly, he adds, the companies can restructure their boards and meet other CMA conditions for listing, first, at AIMS and then at MIMS.
Vishal Agarwal of PricewaterHouseCoopers predicts that as the stock market grows, more companies will join the alternative market segment once they are aware of its incentives.
"NSE should educate companies about the AIMS so that we can have more listings in this segment and the exchange in general. This would bring more companies to the capital markets," advises Agarwal.
Until that happens, many of the companies in AIMS will remain in the wilderness. asserts, the government is addressing the problem.
"Under the Industrial Training Act, the Directorate of Industrial Training (DIT) is mandated to ensure that there is improvement on the quality and efficiency of people engaged in industry. Also, it maintains a supply of trained manpower to all sizes of industry - small, medium and large.
"Employers have been complaining that many graduates lack the hands-on skills and ethics for doing things. We at DIT are addressing their grievances by providing an interface between the training institutions and industry by supporting industrial attachment whereby students acquire skills on-the-job," says Eng. Kidenda.
The institute has just successfully completed an 18-month industrial attachment pilot project kicked off in 2004 and targeting 1,800 students, but which ended up attaching 2,500 students. The pilot project is aimed at providing insights into a proposed national attachment scheme, currently being developed. The scheme is aimed at guiding the country on student attachment in a bid to provide such students with on-the-job skills during training.

Large enterprises

Local entrepreneurs lack linkages between MSEs and large companies, which is one of the reasons behind industrial development in developed world and East Asia.
Having attained his PhD degree in International Development Studies from the National Graduate Institute for Policy Studies in Tokyo, Japan, Dr Akoten feels we can borrow a leaf from the orient, especially Japan.
Behind the success of Toyota Motor Corporation, which is expected this year to overtake General Motors in global sales, there are over 10,000 MSEs, each sub-contracted to produce different parts for Toyota vehicles that are then assembled by the company.
"The sub-contracting not only provides markets for the MSE's, but also improves their efficiency. This enables them to grow. In Kenya, such linkages are, at best, weak or, at worst, non-existent, with many large enterprises doing everything in-house," observes Dr Akoten.
Many large enterprises in the country feel engaging small enterprises is a waste of time since MSEs and medium enterprises lack capacity to meet their standards.
Similarly, Mbui cites Rajkot, a town situated in the Saurashtra region of the western Indian state of Gujarat, renown for diesel engines manufacturing. It has about 150 engine manufacturers.
"The town is structured in such a way that there are very many other small companies, the size of jua kali artisans in Nairobi's Gikomba area. Each one manufactures particular components such as pistons, bearing or crankshafts, for one engine manufacturer," says the RMS owner.
MSEs need to be assisted to efficiently produce high standard goods and services. In an economy like Kenya, one of the biggest customers to do business with is the government. Arguing that the government could promote local entrepreneurs by doing business with them, Mbui takes issue with the country's procurement procedures.
"The government holds a vantage point to not only encourage, but also assist small enterprises to grow. For example, it placed an order for vehicles with one motor dealer worth Ksh 1.3 billion last year. How many private companies can place such an order? But then, how many local entrepreneurs can win such a tender?" poses Mbui.
He accuses the procurement process of being very restrictive.
"If one wants to bid for a Ksh 100 million government tender, they need to place a bid bond, say, 10 per cent of the tender value, which translates to Ksh 10 million . If they win, then they have to place a performance bond of another Ksh 10-15 million. This knocks many small companies out of the tendering process."

The entrepreneur, who also supplies generators to Somalia and Sudan, also calls for restructuring of the procurement process to allow small, medium and big enterprises to compete fairly.

This may be in the offing as the Public Procurement and Disposal Regulations 2006, gazetted as part of the implementation of

the Public Procurement Act 2005,

identify a variety of preferences to local enterprises that have been identified in the Act as 'citizen contactors.'

Under the regulations, citizen contractors will be given preference when government procuring entities purchase goods and services whose value does not exceed Ksh 50 million. As for works, citizen contractors will be awarded thresholds for contracts that do not exceed Ksh 200 million. This is more so where the source of funding is 100 per cent from the Government of Kenya or a Kenyan body.

The Act, assented to by President Mwai Kibaki in 2005, refers a citizen contractor as a natural person or an incorporated company wholly owned and controlled by persons who are citizens of Kenya.

Rather than viewing it as a case of boxing beyond their weight, Mbui says small and medium enterprises must be ambitious and ready to take on the big players and risks involved.

"If you are small and not ambitious, you will not grow. Although I started as a small company, I took head on big companies for big tenders such as those offered by United Nations (UN) agencies like UNICEF, for whom we are now their major suppliers," proudly declares Mbui. Now his client base includes the Kenyan government departments, non-governmental organizations and banks.

On a lighter note, Mbui calls for a change in what he dubs the Kenyan 'culture' of paying for services. "Kenyans want credit. One of the greatest headaches in running business in Kenya is getting your debtors to pay. Tanzania is totally the opposite. It is like a cash economy. Tanzanians, including the government, do not expect one to provide them with products or services without paying. It is cash on delivery. They even pay in advance. As far as finance is concerned, I find running my Tanzania business much smoother and more stress free than the Kenyan one."

All said and done, Kenyans are left wondering; are they on track to attaining the industrialised nation status or chasing an elusive dream?