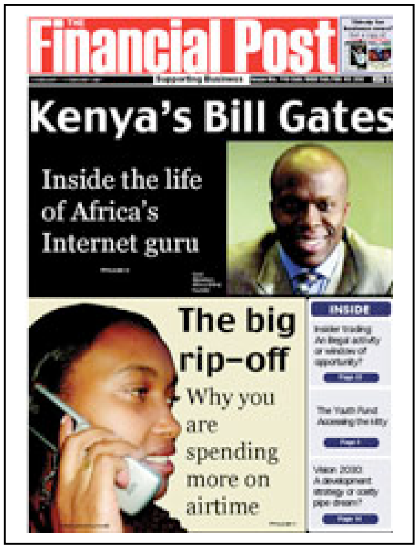
The mobile phone subscriber rip-off

Service providers could reduce tariffs by a massive 80 per cent and still make profits



By Jackson Okoth

As the price war between mobile telephone providers Safaricom and Celtel gets murkier, their 8 million plus subscribers are not aware that they are paying at least three times more for making calls. However, they will have to wait a little while longer before they can benefit from cheaper tariffs and lower billings on their networks.

This is until market forces and regulatory pressure builds up sufficiently to force the service providers to lower their call charges, *The Financial Post* has established.

Communication Commissions of Kenya (CCK) Director General Eng John Waweru discloses that the prevailing tariffs on mobile phone calls could come down sharply if a new player were to join the market

"The cost of making mobile calls should be at Ksh 5.00 per minute or below on any network. At this tariff levels, the service providers will still be able to make profits," said Waweru.

Currently, the rates being charged by Safaricom, a joint venture between state-owned Telkom Kenya and Britain's Vodafone, and Celtel, the two main players in the country's mobile telephony business, is still considered exorbitant and not reflective of their costs. What is more, CCK has actually allowed the mobile phone companies to thrive on their present tariffs.

"We have allowed them to make these profit levels to enable them expand their infrastructure to enable them roll out to the remote rural areas as well as allow the investors to recoup their initial capital investment," said Waweru.

Waweru's sentiments were confirmed by Finance Minister Amos Kimunya last week during a press briefing at the Treasury.

"Safaricom has not been able to pay dividends to the government on the understanding that it will invest in infrastructural expansion."

Surprisingly, even with such a soft landing environment, Safaricom's network appears to be bursting at the seams from overwhelming traffic. Safaricom came into operation ten years ago with the government investing Ksh 1.2 billion.

This is best exemplified by clogging of the network especially on Fridays, public holidays and whenever they give calling offers.

Fears have been expressed by CCK officials that in the event the tariff levels drop to, say Ksh 5 per minute, the mobile networks in their present capacity will be unable to cope.

Does this build up a case for the deserved entry of a new player into the market, preferably a Second National Operator (SNO), to expand existing capacity and force down tariff levels?

The CCK boss says the prevailing price war between Celtel and Safaricom is just but a sign of things to come.

"We shall soon see retail customers being offered free calls on the same network as competition intensifies and new players come into the market," said Waweru.

Despite its groundbreaking potential to the calling charges regime, entry of a second fixed line player into Kenya's lucrative multi-billion shilling telecommunications sector remains uncertain after CCK cancelled a tender awarding the Ksh 12 billion license to Dubai-based Palestinian conglomerate Vtel Holdings plc.

The consortium had won a lucrative unified licence that would have allowed them to provide national fixed line and mobile telephony, internet backbone, international voice gateway, commercial VSAT and long-distance voice data services.

The second fixed-line operator is expected to come onstream to offer competition alongside state-owned Telkom Kenya, the long dominant player in the fixed-line business.

Vtel had quoted a financial bid of $169.7 million (Ksh12 billion) against Reliance, which bid $111 million (Ksh7.7 billion), and India's Mahanagar Telephone Limited at $ 52.1 million (Ksh3.6 billion).

The CCK board resolved to cancel the tender award to Vtel Consortium, on the basis of non-compliance with the tender requirements. Now, the regulator has invited next highest ranked bidder, M/S Reliance Limited, to apply for the SNO licence.

The Reliance Consortium is led by India's largest private telecom service provider, Reliance Telecoms, and Kenya's Triton Group with Swedtel of Sweden as the technical partner.

Reliance Telecoms is the parent company of Flag Telecom, an undersea cable operator that has teamed up with Kenya Data Networks to connect Mombasa to the UAE. By the time of going to press, Reliance had confirmed receipt of the CCK invitation to bid for the license and has now asked for a two – week extension to engage its own board on the offer.

"In the event that Reliance fails to get the license, we may be forced to re-tender under new rules," says Eng. Waweru.

Is the delay in allowing the second national operator to come on board a case of the state protecting its interests in Telkom Kenya until it completes the restructuring process?

Speculation is rife among industry players that state-owned Telkom Kenya, its subsidiary Safaricom and CCK may be involved in a high-rope balancing act to delay the entry of new competition into the lucrative telecoms market. However, some analysts are contending that, because of the imminent separate floatings of Telkom and Safaricom shares, the Government may not desire cross control of these giants by non-Kenyan shareholders, especially, to improve competition in the future, they may both be awarded open telecommunication licenses.

But as the SNO operator remains uncertain, a price war in the mobile telephony market has broken out and is threatening to get out of hand by the day. Celtel has already made a formal complaint to CCK citing what it terms as unfair trading

practices including price undercutting by Safaricom. It argues that Safaricom could be using its dominant market power given that over the last couple of months, it has been able to act, to a significant extent and independent of Celtel, in setting out lower tariffs charges to its subscribers.
In what is promising to be a consumers' field day, Safaricom's ability to lower prices below competitive levels without there being any negative impact on its revenues and profit that is causing concern at Celtel headquarters. Available figures indicate that Safaricom had over 5.3 million subscribers at the end of last year. Its market rival, Celtel Kenya, had close to 3 million subscribers.
The ongoing battle between Celtel and Safaricom has been going on for some time now. But the present bare knuckle contest first began in earnest at the close of the December festive season last year. This was when the phone companies rolled out special offers to its clients. Celtel Kenya fired the first volley by unveiling a new tariff in December, offering a uniform rate of Ksh 16 per minute irrespective of what network customers call. In response, Safaricom lowered its tariffs to Ksh 10 per minute for the holiday season, reducing its peak charges from Ksh 35 to Ksh 20.
The battle ground has now shifted to off-peak, with Celtel accusing its rival of price undercuts and engaging in unfair trade practices.
It is curious to note that players such as Celtel Kenya offer a flat tariff for its prepaid subscribers when calling on other networks while Safaricom gives its customers a differentiated one, with calls within its network being the cheapest. For instance, per second billing on Safaricom to Celtel is Ksh 50 during peak hours, while Safaricom to Telkom landlines is Ksh 45 during peak hours.
This is compared to Celtel which offers a flat rate of Ksh 16 and Ksh 24 on calls to all other networks to its Uhuru prepaid tariffs.
It is now widely acknowledged that one of the key challenges facing the telecommunications sector today is interconnectivity.
Jonathan Somen, Managing Director of AccessKenya, told *The FP, "*The CCK must ensure that all operators are forced to adhere to a timeline and a set of rules on interconnection to ensure that they don't stifle the connectivity to their networks of the new entrants into the telecoms market".
He suggests that the CCK can, for instance, apply pressure on the players to follow set guidelines on interconnection and then enforcing these rules by ensuring that other operators connect within say 90 days of the original application for interconnection.
"Further, the CCK need to ensure that interconnection rates given by an operator must be at a price less than what that operator charges a retail or end user customer" said Somen.
For example, Telkom Kenya charges a retail customer Ksh 5.50 per minute for a local call. "The interconnection rate must be lower than this to allow other operators to offer either the same or lower charges for calls to that network, in this case to Telkom's network," said Somen.
For a long time, Telkom Kenya and Safaricom have been locked in a long running interconnect dispute, stifling competition in the telecoms sector.
The dominant Safaricom and Telkom Kenya, with controlling market share in the mobile and fixed line telephony business respectively, have been using high interconnect rates to lock out competition from their networks as well as prevent the entry of new players into the telecoms market, says players in the ICT industry.
Industry insiders disclose that dominant phone companies in the market charge wholesalers exorbitantly, ensuring that operators interconnecting on their networks cannot compete on price.
With competition between Telkom, Safaricom, Celtel and wireless companies getting stiff and the overall ICT sector getting more vibrant, the issue of high tariffs on calls still remain contentious.
On this matter, AccessKenya boss says, "A move taken by CCK to undertake and publish findings of a study on interconnectivity is key."
An example of this is allowing operators to write off their equipment in one year. This offers a tax incentive to these operators which in turn would translate into further investment into the operators' networks and further services for Kenyans.
Meanwhile, studies forecasts mobile phone subscriber base is to triple in the next few years, with Nigeria, South Africa, Egypt and Morocco leading in market size. A new report by BroadGroup, the London-based consultancy group, reveals that mobile subscribers across the continent will almost triple in the period through to 2011.
Growth in mobile phone ownership in Africa has been rapid, with the number of cellular phone subscribers increasing to more than 188 million by the end of 2006. The report indicates that the increase in mobile penetration across the continent now equates to approximately 20 per cent of the population (of more than 922 million).
Yet the report suggests that the African market is already consolidating, a trend that will accelerate following a spate of acquisitions led by MTC Group who have developed a unique pan-African play through its acquisition of Celtel, MTN and South Africa's mobile operator Vodacom.
Research suggests that Africa is on the way to becoming one of the world's most important mobile economies by the end of 2011, almost tripling the subscriber base today.

Entrepreneur

Your dream job, a click away

By **Mwangi Maingi**

Newspaper, godfathers, networking, posters and even word of mouth counts among many other tools used globally by jobseekers and employers to look for jobs and recruit staff respectively.
But the new kid on the block and threatening to overtake the age-old means of job placements is the information and communication technology (ICT), particularly mobile phones.

In a new setup in which one cannot even imagine life without a mobile phone, the small communication gizmo is slowly becoming a meeting point for prospective employers and employees.

But it is not a matter of chance. With over four million of Kenyan population being mobile phone users against a million Internet users, the cell phone has slowly muscled its way to emerge as the most ubiquitous communication tool. It was this statistics that led Anthony Mwaniki, the Mobile for Good Business Manager, to invest in mobile telephony in a bid to be a participant in poverty eradication efforts in his country, Kenya.

"When we were confronted with the statistics as a result of the Mobile Content to Change Lives project, we asked ourselves how we could utilise the mobile phone to alter the lives of people." Mwaniki explains.

Mwaniki concluded that the best option for him to invest was in connecting jobseekers with prospective employers. Thereby, he established Kazi560 Service.

Kazi560 Service was initiated in June 2003. This according to the entrepreneur resulted from the project by OneWorld International, a London-based non-governmental organization, and funded by the Vodafone Foundation. The research by OneWorld International was aimed at finding out what information would be of help to the less fortunate, especially slum residents.

According to Mwaniki, the result after several months had revealed that one out of every five adults had a mobile phone. As the most accessible means of communication in the area, it gave them an apparent business idea to venture in.

"We did not want to see the mobile phone simply as a tool for the elite; we looked at how it could help people in lower strata of society. At the moment, one of the biggest problems in Kenya is unemployment, which runs at over 40 per cent," Mwaniki observes.

Mobile for Good is a company that offers job alert services to jobseekers in the extensive Safaricom network.

"It targets to create awareness of job opportunities to the fresh graduates and those looking for greener pastures," he tells of the company with over 30,000 subscribers and covers 72 job categories. 70 per cent of them are blue-collar and 30 per cent in white-collar.

Mwaniki says the service is free to employers that want to recruit within the job categories Kazi560 deals in. For the jobseekers, the registration is free with a job alert costing as little as Ksh7, just Ksh2 above the normal rate for local short text messaging.

"For a jobseeker, one need to subscribe for the alert by sending an SMS to 560 indicating the job of interest. Then the message is sent to the number 560 for subscription. One receives a list showing categories available. He or she would then be receiving an alert depending whether it is in our categories of job alerts," he explains.

The employer on the other hand needs to call the Kazi560 and give details of the vacancies available. The details are then formatted into an SMS. The SMS is then sent the to the mobile alert servers at Safaricom Limited where it is delivered to the subscribed jobseekers' phones depending on the category

"The high connectivity for the Safaricom signals to the rural area where print media and internet services are rare, thus SMS alerts allows prospective employers and jobseekers to interact anywhere in the country," Mwaniki states.

The service has so far changed lives of many around the country within the three years of operation. Jobseekers especially those in areas where media services are rare get information on jobs with ease.

From the employers' point of view, the immediacy of the services considering that an SMS is typically delivered within seconds to recruits. This saves time for both the recruits and the employers, which could have been spent in preparing advertisement and delivering letters of interviews.

A good example is the Budget Cars Limited Human Resource Manager, Evelyn Mungao. She believes that the service is cost effective in that she managed to recruit very quickly a receptionist who lives in Mombasa for their office there.

"Tools like the press, emails or posters used for recruitments often requires people to go to different locations for the services. For the mobile alert, all what is required is adequate airtime and network services to get alerted for a dream job," Everlyn adds when contacted on the phone.

Challenges

From the beginning, Mwaniki had promised to accept the challenges so that he can feel the exhilaration of achieving his goal of changing lives especially the jobseekers.

"It was never been easy to start. Capital for instance was the major challenge in our business. Banks for instance were adamant to offer loans to a start-up with no tangible collateral, since much of what one could manage is the business plans," he says.

High marketing and advertising costs to reach the larger population through prints and audio medias has been a challenge too. This is to
create the confidence of the both jobseekers and employers on the incredible services the company offers to them.

To ensure that the service reaches to all corners of the country, Mwaniki says that Mobile for Good is planning to collaborate with universities, labour institutions and other colleges.

Mobile for Good has a mission, which drives it towards achieving the purpose to connect prospects in the job world.

"To become known and trusted for excellence in the provision of affordable value-add services via mobile phones that help to alleviate poverty and improve life", he avers.

In addition, the company also organizes career workshops to empower jobseekers with vital skills for career and personal advancement.

"This will enables the people from all corners so long one can accesses mobile phone services, to be informed of the job market at minimal cost possible," avers the entrepreneur.

Among the institutions which have recruited through Kazi560 service includes Books First Limited, CFC life, Pure Health Limited, Old Mutual Limited, Davis and Shirtliff, Villa Care, Henkel Chemicals, Buzz a Cab, Diamond Trust Bank, Casino Malindi, Easy Coach Limited just to name a few.

Budding entrepreneurs

Mwaniki was quick to pass a word of advice to those seek to venture into the business world with quick-money kind of scheme.

“In the world of business, nothing can take the place of persistence. Talent will not, though nothing is more common than unsuccessful men with talent. Education will not, since the world is full of educated derelicts. Persistence and determination alone are omnipotent.”
The need for honesty and responsibility in any kind of business are basic in additional to the services one offers.
“One may not be a jungle of all tools and services. In such case, one needs to be honest on what he or she can be able to offer and what one cannot,” he concludes.

Across the borders

Ayisi Makatiani: Sticking to his guns

Ayisi Makatiani is often mentioned as one of Africa’s young up-and-comers. But it’s taken him the better part of a decade to gain that recognition. It was back when he was still studying for his degree by the placid Charles River in Cambridge, Massachusetts, a decade ago that Mr. Makatiani first came up with the idea of starting an internet business: an online chat room that would link Kenyans living in the United States (US) who missed home and wanted to keep in touch.
It didn’t take long for Makatiani, an electrical-engineering student at the Massachusetts Institute of Technology (MIT) and his Kenyan friends to learn that they were on to something. A fast growing subscription base and demands for hard news from home led them to a more ambitious goal: an Africa based internet service provider, complete with African content.
Most people back home still did not have electricity, true, but those were the early days of the dotcom craze. With the sense that anything could happen, they gave it a go. They knew navigating the waters of Kenyan corruption would be daunting, but they weren’t prepared for the class 5 rapids they encountered.
Shortly after the opening of his Africa Online offices in downtown Nairobi, Makatiani’s competitors, who had ties to high-level government officials, “convinced” the national telephone company to shut down his company’s phone lines - leaving the main server unable to dial out. Customers began canceling subscriptions.
“We were offering dialup service, and we had no dial tones,” recalls the Kenya Airways non-executive director. “It was not fair. Not easy.”
But today, Kenya’s first commercial internet service provider is operating in ten countries and is considered one of the continent’s best-run businesses.
Makatiani has been named one of the World Economic Forum’s leaders of tomorrow and recently started a promising new venture capital firm - Gallium Capital Partners - to fund tech companies in the region. Gallium has already been flagged by *Fortune* magazine as a model fund for companies in Africa.
Africa needs the kind of economic boost Makatiani’s venture-capital fund can provide. Sub-Saharan Africa now is poorer, sicker and more devastated by war than it was when the colonialists departed.
At the start of the 21st century, it has the largest concentration of people in the world living on less than $1 (Ksh 70) a day, the greatest number of civil wars ongoing, and the highest number of refugees. HIV/Aids has cut life expectancy to 47 years, and only 12 per cent of the roads are paved. Corruption still abounds.
But Makatiani always knew two things. He says as he maneuvers his car along the highways of his current hometown, Johannesburg, South Africa, between meetings: He was going to become a major business player in Africa, and he was going to do it the fair, ethical way.
“That was a time where you simply could not do business without having to pay someone,” says Makatiani, a handsome one-time track-and-field champion who today favours dapper suits and conservative ties. “But we didn’t want to pay someone. We didn’t want to join that club. It was like being part of the mafia.”
But he also knew that he could not yell and scream and demand things in Nairobi that were par for the course in Cambridge - like getting a working phone line if he paid his bills.
With the help of a colleague’s influential father, Makatiani created a politically well-connected board of directors that began lobbying on Africa Online’s behalf, protecting it from unfair demands and steering it toward helpful partners.
“What we had to do was educate [government bureaucrats and suppliers]. There are a lot of people around who have power but who are poor - trying to get a piece of the action. But we refused to cut corners,” he says. If his group had started handing out bribes, he says, they would never have seen the end of it.
“Perhaps we were a little bit naive in those early days at Africa Online,” he chuckles. “We wanted to stick to our guns. We might have been richer quicker, but I am not in the business of short-term advantages. And I have always been able to sleep at night.”
“It will be men and women like Makatiani who will create the wealth that pulls Africa into the developed world,” *Red Herring*, the respected technology magazine, wrote last year. “His company is treading where diplomacy has failed, confronting problems that have thwarted powerful international agencies, and slowly progressing toward its goal of creating a single market out of Africa’s 800 million people.”

Profile

Makatiani has extensive management experience and operational knowledge of African markets. He holds a Bachelor’s degree in Electrical and Electronics Engineering from Massachusetts Institute of Technology (MIT).
He is currently Managing Director and Chief Executive Officer (CEO) of African Management Services Company. He has previously served as Managing Partner of Gallium Partners Investments, Non-executive chairman of MCI/UUNET Africa and Founder and Chief Executive Officer of Africa Online Holdings
Makatiani has been voted among the leading top 15 CEOs in East Africa, three years in a row, in the Annual PricewaterhouseCoopers-Nation Media Group survey of the top CEOs in Kenya, Uganda, Tanzania and Rwanda.

-Andy Nelson, *csmonitor.com*

National

Govt's plans for FM radios this election year

With the presidential and general elections expected later this year, there are fears that some FM stations could be used to excite ethnic passions like they did during the 2005 referendum. *The Financial Post'*s political desk spoke with an Assistant Minister for Information and Communication and MP for Matungu David Were **about these concerns and other issues. Below are excerpts.**

Q: Mr Were, there are fears that some FM stations could be used to fuel tribal and ethnic animosity this election year. What is the government doing about this ?

A: The government has always been concerned with the trend some of these FM stations have taken in their programming. This issue has even been raised several times in parliament and the government stand is that proper legislation must be put in place to handle the situation. Before parliament are two Bills, the Media and ICT Bills, which will be debated as soon as the House resumes next month. And I can assure the public that by election time, there will be laws in place to regulate how these station operate.

Q: You are aware of complaints that some of these station even air offensive programmes that have not gone down well with some members of society….

A: I cannot deny that, but my appeal before these laws are passed is to the concerned station to consider and make sure that whatever is aired is appropriate and not offensive . We have not been able to do much on the basis of legal limitation but it's our hope that the media owners will take it upon themselves to follow professional ethics in giving this essential services.

Q: What about concerns that the Bills you mention, and particularly the Media Bill , other than trying to bring sanity to the broadcast media, are actually aimed at muzzling the press ?

A: Let me say that the Bills are drawn by the government with a lot of input from stakeholders. In fact, these are their Bills and the government's role is to harmonize how regulation is undertaken and I can assure you with the Bills, it will be a win-win situation, and most beneficial to the consuming public .

Q: And on communication, what progress had your ministry made, say in the last few years?

A: The space may not be enough to enumerate all that we have done but I can tell you without fear of contradiction that we have done a lot . As a matter of fact, our efforts are geared toward the goal of creating access for every Kenyan to be able to communicate.

In 2006, there were five million people accessing telephone and this year, we expect the number to hit eight million people. We aim at 15 million in the next few years. We are encouraging service providers to target far flung areas like North Eastern in their investment programmmes to help opening up such areas. It's the government desire that even Safaricom and Celtel mobile phone operators take a leading role in this.

Q: That is as far as your ministry is concerned . However, as a government minister how would your rate the government's performance just months to the end of its mandate?

A: The government has performed extremely well particularly on economic front where the highest ever growth rate of 5.8% was registered in the economy. I know critics have contested this but we must realise that the trickle down effect cannot take place overnight and sooner or later Kenyans will see what difference there is . We have talked about free primary education that was implemented in the year 2003 and has proved a success and also the CDF which has decentralised expenditure of national resources

Q: So why is the opposition on a roll, discrediting the government's performance and winning minds?

For some strange reasons, politics has taken centre stage at the expense of constructive issues being discussed or credit being given to where it is due, but I want to assure you that a lot is happening in this country and even the peace and tranquility in the country must not be taken for granted. We need democratic space and this must be used effectively and constructively for the benefit of socio-economic and political development

Q: But don't you think the government could have done better, especially in the fight against graft?

A: Let me be categorical that the issue of corruption however insignificant must be dealt with decisively and with finality and my honest and humble submission is that the twin corruption issues of Anglo Leasing and Goldenberg will not just be wished away and the faster they are dispensed with, the better.

Those who gained from them were individuals in their own capacities and they should have been brought to boot. The government's credibility has suffered and since we know that where there is smoke there must be fire, its time this issue is ended once and for all.

Q: Let's focus on another thorny issue. There are calls for minimum constitutional reforms . Where are you in the debate?

A: Political democracy dictates equal opportunities. Considering the time limit, I would personally appeal for minimum reforms to provide a level playing field. We need a give-and-take situation because at the end of the day we are wherever we are because we sought and got opportunity to serve Kenyans and they are the ones who are seeking a level playing field so that they can democratically participate in electing their leaders and ensure equitable distribution of resources which is actually their sweat

Q: Justice and Constitutional Affairs minister Martha Karua is on record saying those calling for minimum reforms should take their case to the floor of the House and convince members to support them. Do you share her position?

A: Those may be true sentiments of the minister and they may hold legal merits, but you and I know that constitution making whether in parliament or in Bomas of Kenyan must have the blessing of government to succeed. The government input cannot be gainsaid and it s from this fact that all shades of agitators call on the government to enact constitutions. Narc in its manifesto and campaign in 2002 also promised Kenyans that if came to power it would deliver a anew constitution.

Q: In effect, you are saying that the government has not played its part and can indeed hand Kenyans minimum reforms if it so wanted?

A: A goodwill from the government can hand Kenyans minimum reforms like yesterday and from these we can move a head and tackle other opportunistic issues and within no time, I can assure you that we will have made so much gain on the democratic front that even the government might even surprise itself as to how wrong it might have been.

Q: This puts focus on the government. Is it in a position to seize the moment and deliver Kenyans from the constitutional quagmire?

A: Looking at issues from the positive side , the current parliament like the previous one has done its part and I am sure in the remaining lifespan , it will complete its programme. Although we must admit that it is going to be a crowded time because of the elections and other issues that the government through the leader of government business in the House has set in the agenda.

Q: And do you see the calendar allowing all these?

A: There have been calls to have parliament control its own calendar – indeed this is among the proposals in the minimum reforms. I think it is necessary because MPs are spending more time outside parliament instead of being in the House making laws.

Most of the times, we are on recess, participating in development issues which are best left to other arms of the government. The House adjourned in December and will resume in March, yet there are very many parliamentary issues pending. This also allows much time for empty politics at the expense of the legislative agenda. MPs are lawmakers and should always be in the House. Development projects should left to the executive.

Q: The position of an MP these days is very lucrative and that is why many will want to go to parliament this year. Comment?

A: The press has amplified MPs remunerations. Yet these were put in place by the eighth parliaments after a review in which Kenyans gave their views and members of the current parliament only voted to enact it. Let's look at issues positively and focus on what we want to achieve as we have done with CDF. MPs are doing a good job and a demanding one at that.

Q: Let's now talk about the so called two horse race - that is the anticipated duel between Narc Kenya and ODM Kenya . Where do you belong?

A: The mandate to govern was given to Narc by wananchi in 2002. I was elected on that party, and on that basis, the president appointed me an assistant minister for information and communication. I will perform this duty to the best of my ability and when the time comes, I will talk of politics and parties. I belong to where the people put me and that is Narc. I am consulting with voters and their interests will supersede all others'.

Q: Western province is developing into an interesting political playground, with heavyweights falling over each other to woo voters in the populous province. Why the interest in the province?

A: Every politician has the right to seek any office and even the president has a right to seek a second term. It is election time and it is important for one to present themselves to wananchi - Western or any other part. Kenyans are intelligent people and will elect a leader they think is capable of leading them.

As for the senior politicians from the province (Vice President Moody Awori, former Vice President Musalia Mudavadi, Trade And Industry Minister Mukhisa Kituyi and Local Government Minister Musikari Kombo), whoever will be a presidential candidate will be assured of a block vote. But if none of these will be a presidential candidate, then the province will split its vote.

Should Mudavadi be nominated ODM candidate, he stands a better chance than those who would be running mates on other parties.
However, politics can change in a day and with alliances and coalitions, you can expect a lot in the last few weeks to the polls.

Q: And in your Matungu Constituency?

A: When I was elected, I had an agenda to change things. I have tried to work with people and they have been very supportive, and only they can make judgments as to what has been my contribution.
There were demanding issues of infrastructure and the general issues of poverty alleviation, among others. We have done our best and improved on the above. We have built bridges and opened up the constituency from all corners.
Most of these have been through CDF, although, as a leader, I have also used my position to solicit for resources to undertake some of these developments. We couldn't just rely on CDF. We had to get our own resources and I can say people are happy. They are particularly happy about electricity connection where we have managed to cover 70 percent of what we sought out to do in 2003, and we have not relied on CDF to do this.
The people participated in all these. I was humbled to see people work without supervision. Indeed they identified the problems and come up with solutions on which I as a leader and CDF just came in to supplement.
Charity organisations and donors have also been of great assistance in uplifting the living standards of the people. We have also held harambees particularly for health and education projects.

Q: Finally, you are a parliamentary debutant. What has the experience been like?

A: It has been challenging. But it has been a great opportunity to interact with people at all levels - simple villagers to the top cream. I have done my part in developing my constituency. People can now travel well and children are going to school.
I can now only appeal to Kenyans to be tolerant this election year. We are a wonderful people and have remained united even as prophets of doom predicted otherwise. Democracy is about giving and taking .

Management

Kenya Re: Crisis in the boardroom

Will the state-owned reinsurer survive its severest test as it wriggles its way to the stock market?

By **Samwel Kumba**

A Russian adage, 'the fish will rot from the head,' aptly describes the belief that problems begin at the highest position in any organisation. Understandably, scholars have often argued that the full value of the fish-phrase comes in when it is used as a metaphor to describe a failing company or one that is 'going nowhere because of a rotting head'.
No wonder, such is the scenario that has recently faced the Kenya Reinsurance Corporation (Kenya Re). At a time when it is expected to be riding high from an impending milestone event in its 36 year history, an unfortunate scenario of a rotting head somehow looked destined to spoil Kenya Re's party.
Until mid December last year, all seemed to be well at the state-owned reinsurer. Plans in which the Government hopes to raise Ksh 2 billion by selling a 40 per cent stake in Kenya Re to the public through a planned initial public offer (IPO) were on course. The State currently owns 100 per cent of the company. The sale is part of a programme of divesting stock in parastatals to the Kenyan public through the Nairobi Stock Exchange (NSE). By June, the government will have sold to Kenyans Ksh18 billion of its parastatals holdings.
Then as if out of the blue, corruption allegations against its then senior managers, Managing Director Johnson Githaka and Finance Controller John Kinyua, hit the headlines.
The two, who have since been sacked, were accused of corruption running into millions of shillings. The accusations against them cover questionable sale of Kenya Re's assets, use of the corporation's money to clear personal mortgages and submitting false claims for travel and sitting allowance.
But is the duo's case one of being sacrificed for political exigency by a meddling state? In any case, the country's economy is littered with parastals that have undergone turbulent periods, mostly blamed on government meddling, particularly by the politicos.
A flashback can do here. In an earlier eyeball-to-eyeball interview with *The Financial Post*, in August last year, Githaka seemed to point out that the state was not poking its fingers into whatever he and the Kenya Re board were doing at the corporation. If anything, Githaka was categorical that the parent ministry, Finance, never interfered with their day-to-day running of the company.
"The Ministry of Finance has left our board and many of the parastatals under it to run their companies on its behalf. That means, if we or other parastatals under Treasury fail, we will not apportion any blame on the government," Githaka stated.
But as it turned out, when the Kenya Re's fish head went bad, the government could not avoid taking flak from the enraged public. Subsequently, Finance minister Amos Kimunya swung into action by suspending Githaka and Kinyua on 4th January 2007 to pave way for investigations.
Kimunya also appointed a new board. Nellius Kariuki (chairperson) was retained alongside other two board members, Jacob Haji Ali and Dr Iruki Kailemia, perhaps for continuity. The new board is likely to be inaugurated later this week.
New board members include the acting Managing Director Evans Amalemba Jumba, formerly the Director of Reinsurance and Operations and who has been in the company since joining as a management trainee close to 27 years ago, Everest Lenjo, Mutwiri Ikiao and Gladys Mumbua Mboya. The Permanent Secretary, Treasury, Joseph Kinyua, also continues to represent the government's interest in the board.
Four days after Kimunya's action, the new board resolved to fire Githaka and Kinyua at a special meeting.

In a letter signed by the chairperson, the board decided to sack them in line with reports and preliminary investigations conducted by both the Kenya Anti-Corruption Commission (KACC) and Inspectorate of State Corporations. To seal the duo's fate, the board then advertised their positions early last week.

We have since established that the government has contracted specialist auditors to conduct forensic investigations into its finances. The exercise, according to the Finance minister, is ongoing and is likely to take three weeks. It is believed that this would go a long way in reducing the impact of the negative publicity upon the intended IPO generated by the ongoing corruption investigations.

However, Kimunya dispelled any fears that the IPO might be affected affirming that, save for the purpose of keeping the record straight, the fraud allegations are nothing that can affect the firm's financial muscle.

"It is nothing big. We only want to put the record straight. If anything, the investigations will put us in a better position to be able to understand where the gap was and present even a stronger Kenya Re to the public," the Minister told *The Financial Post* last week.

Kimunya further revealed that the government was not out to sell Kenya Re to make money, arguing that the government's intention in the whole privatisation agenda is to let Kenyans own a piece of the state parastals.

"There could be no reason to sell profitable parastals through the stock exchange if we wanted to make money. We could look for a few loaded individuals to buy these institutions. So when the government is privatising these firms, it is in the interest of Kenyans," reiterated the minister.

Earlier, KACC had moved to court to seek a preservation order for shares and funds allegedly held at Suntra Investment Bank Limited by the former financial controller. The order is to stop the sale or transfer of the shares until the probe is complete.

According to KACC, Kinyua holds shares in Kenya Commercial Bank, East Africa Breweries, Barclays Bank of Kenya, Housing Finance Company of Kenya, British American Tobacco, Total Kenya and Mumias Sugar Company. The commission believes he bought the shares with part of Ksh 5.4 million allegedly given to Rockhound Properties, a company supposed to be associated with the two.

However, Kenya Re still enjoys a B+ (Very Good) financial strength rating by A.M. Best Company, the world's premier insurance rating agency which also gave the corporation an issuer credit rating of''bbb'. The rating agency affirmed the outlook for both ratings as stable.

AM Best indicates that such high ratings are assigned to companies that have a good ability to meet their ongoing obligations to clients. The ratings are based on a comprehensive quantitative and qualitative evaluation of the strength of a company's balance sheet, operating performance and business profile.

AM Best says the corporation's capitalisation is regarded as strong, arguing that such a resource is certainly supportive of Kenya Re's international growth strategy.

Operating performance is expected to remain at a very good level reflected by a combined ratio of approximately 90 per cent for the last two years. Kenya Re's Authorised Capital has increased to Ksh 2 billion while the paid up capital has increased from Ksh 1 billion required by the Insurance Act to the current Ksh 1.5 billion.

Considering the challenges Kenya Re has faced over the previous few years, the high rating is a testament that the state corporation remains a solid investment. Sources within the corporations termed the rating as an inspiration on resilience arguing that Kenya Re stands for the same things it did 35 years ago: excellent, disciplined and quality underwriting and investments.

It is worthwhile to note here that before the onset of economic liberalisation, Kenya Re was the only reinsurer operating in the Kenyan market and was enjoying guaranteed compulsory cessions from the local market.

This enabled the Corporation to underwrite premium business to the tune of Ksh 3.9 billion this being the highest and made a net profit of Ksh 116 million in the year 1995. After the advent of the liberalised economy the compulsory cessions on insurance policies ceased in the year 2000 and this affected the performance of Kenya Re.

As Kenya Re adjusted to the loss of compulsory cessions, most of its revenue is being derived from treaty cessions and optional business. Kenya Re thus underwrites prudent business and, with privatisation, it is anticipated that the outcome will witness enhanced profits and the Corporation's future is certainly very promising.

One of Kenya Re's most distinguished contributions to the local economy is the pivotal role it had played in the growth and development of the insurance sector which gave the Corporation a grandfather role in the industry.

Our source at the corporation maintains that, throughout its history, Kenya Re has been determined to continually improve to the advantage of their clients everywhere. The sources indicates that the corporation has always exchanged knowledge freely, openly and constantly in order to enhance the local underwriting capacity both locally and in our thrust in regional markets in Africa, Middle East and Asia.

The corporation remains focused on fulfilling its mandate which includes a fair return on shareholders' investment. Despite the competitive environment in which it operates, Kenya Re has remained competitive and profitable.

But as the search for the new CEO and financial controller gathers steam, the would-be CEO at Kenya Re's Re-Insurance Plaza headquarters will have to remain focused beyond the city's traffic life, in order to harness the opportunity emanating from the NSE and other far-flung areas where Kenya Re operates. That will be the new CEO's likely brief.