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As banks rush for street businesses…

By **Samuel Kumba**
and **Jackson Okoth**

Afew years ago, a lowly paid teacher on the payroll of the government was struggling literally to keep his head above the waters of poverty. Yet he was required to open a bank account. This is not because he needed it, but only for the purposes of processing his meager monthly salary cheque.

During the dry spells of the month, the teacher would make withdrawals, leaving only Ksh 200 as minimum balance required to maintain the account. This amount was a fortune by the living standards of those days.

No wonder, when things got real hard, the teacher would be in dire need of even the Ksh 200 balance. He would, therefore, be forced to make a difficult decision; to withdraw everything and close the account altogether. But he would face one dilemma, he needed an account to enable him process his next monthly pay cheque.

To go round his predicament, the ingenious teacher would quickly open another account, process the cheque, withdraw everything and, consequently, close the new account. This cycle of opening and closing accounts would be replayed over and over again.

Given his low income, the teacher had even stopped entertaining the idea that he could borrow money from a bank. What he needed was an avenue to process his salary and leave part of it to withdraw for use at a later date.

Fast forward and, today, the teacher sits at the pinnacle of one of the largest commercial banks in the country and reminisces about how banking business and times have changed.

“As a result of increased competition between banks, customers are now being offered zero-balance accounts,” says Reuben Marambii, the teacher in question and Managing Director of the state-owned National Bank of Kenya (NBK).

Marambii’s graphic experience with banks during his yesteryears best depicts a typical profile of most people using banking services today. Most bank customers are too small to go for a loan at their banks. All they need is a bank that can receive and process their salary and keep the cash for withdrawals whenever need arises.

It is against this background that a long simmering battle between banks for control of the retail or small accounts business has now fully erupted into the surface. Virtually all banks have pitched tent in this segment, literally falling over each other in a bid to capture the attention of that low-salaried or self- employed and piggy-bank type of customer found on the lower end of the market.

The current scenario began to take shape more than a decade ago when the country’s economy hit rock bottom. With high interest rates accruing from government securities during those days, banks, in a bid to make quick money with minimal risk, moved their funds to Treasury Bills and Bonds, thereby effectively shifting their focus from their core business of lending money to customers.

It was during these times that mainstream commercial banks started scaling down their operations, closing up outlets especially in rural areas and retrenching staff. For example, Barclays Bank of Kenya and Standard Chartered Bank, which were fast emerging as the main players in the market, shut down their branches in the rural areas, shaved off staff and changed focus in pursuit of the high-yielding corporate client.

For three years now, the country has embarked on a recovery and growth path, with the rural economy pulling itself from decades of retarded growth. And with Treasury Bills becoming less and less attractive in terms of interest, mainstream banks are back into the small-savers business, having abandoned it for more than a decade.

The question that immediately comes to mind is whether the large commercial banks are targeting the small savers for the long period or theirs is simply a short term recovery strategy.

While they took flight from the rural areas and left poor farmers with hard-earned savings held onto the palm of their hands with no banking services, a number of micro-finance institutions, Savings and Credit Societies (Saccos) and informal financial outfits quickly moved in to fill the void.

But now, these banks have to contend with stiff competition from the emergence of the micro-finance institutions, especially those that have converted to fully-fledged commercial banks.

One such player is Equity Bank. It was established more than two decades ago as a Ksh 3 million worth micro-finance institution to satisfy a growing demand for mortgage and small loan services in the unattractive low-income population in Murang’a. But today, Equity Bank is a high flier.

Competition in the lower end of the market began in earnest when almost all the financial institutions introduced a suite of products targeting the middle to low-income savers previously ignored by the big banks.

The rise of small locally-owned banks has brought relief to customers in a market dominated by multinationals whose services come at a high price. State-owned-Kenya Commercial Bank (KCB) and NBK, amongst the biggest banks in the country, are now gearing up to maintain their foothold in the market.

When the multinationals were abandoning retail banking, KCB and NBK somehow maintained their vast branch networks. Recording significant turnarounds after making losses for decades, KCB and NBK are styling up.

KCB is the bank with the most number of branches in the country, having outlets in almost all rural centres in Kenya.

Although Stanbic Bank has tried to concentrate its efforts in personal business lending as opposed to corporate banking, its business model is driven by profits accruing from the respective segments.

The Financial Post has since established that what influences a retail customer on whom to bank with ranges from minimum balances, processing fee for withdrawals over the counter or at the Automated Teller Machines (ATMs), monthly maintenance fee, withdrawal hours as well as other bank charges.
For instance, whereas NBK charges no monthly maintenance fee on its *Taifa* account, Postbank levies Ksh 50 on its *Bidii* account, Barclays charges between Ksh 490 and Ksh 1,200 per month on its newly launched bouquet accounts. To open the bouquet accounts, one requires an opening balance of between Ksh 1000 and Ksh 10,000.
While some banks offer zero-balance accounts and ask the new customers few questions, others require to be furnished with a lot of details, including referees and a net salary that is above certain levels as well as copies of pay slips or utility bills and confirmation letters.
Ultimately, it is the customer who decides which bank offers the best services and, therefore, supports the particular institution to thrive in retail business while those that do not get their fingers burnt.
Even in terms of business, banks are moving away from lending based on collateral to the know-your-customer (KYC) concept. This dawned on the banks when they found themselves holding securities given as collateral for loans taken as far back as 30 years. KYC is fast becoming the guideline that is being used in lending. Banks are shifting from asking for securities to knowing their customer.
Meanwhile, with large banks making forays into the rural areas, a population segment they had abandoned years ago, those who survived and thrived in their absence, including micro-finance outfits and various Saccos are not about to inch out of their hard won territories.
Institutions such as Family Finance, Equity Bank and several Saccos are confident that they have the customer loyalty having stuck with them during hard times. Besides, they both have divergent views on the topic as our survey indicates…But one thing remains clear: The retail market is very stable and is the new frontier for commercial banks in their pursuit for that extra shilling.

See views below

Banks: Who is really serving the ordinary person?

Various CEOs defend their strategies

As various financial institutions including multinational banks go lock, stock and barrel for the once despised ordinary person, suddenly the hitherto powerless retail customers have become 'bosses' as they hold the key to the ultimate decision on whom to bank with. *The Financial Post*'s **Samwel Kumba** and **Justus Ondari** spoke to a number of chief executive officers (CEOs) and managing directors (MDs) on what their banks have to offer the retail investors and here are their comments in defense of the strategies of their institutions.

Terry Davidson, outgoing CEO, Kenya Commercial Bank

The banks that are coming out more strongly into retail banking today might as well be eyeing what has largely been our market. But a critical look at comparables especially between our results and theirs, the momentum in KCB is stronger.
There are some banks that are showing an equally strong growth in the area of retail banking but there are others that are not. However, what has emerged clearly is the fact that retail banking is a growth area.
And without doubt, KCB has a significant advantage because of our large branch network. Of course, we expect more competition over time but we will always ensure that we are a step ahead of our competitors. We have to ensure that they do not erode our business and that is our major challenge.
We intend to address this by being innovative through development of new products, opening more branches and upgrading our infrastructure. Currently, we have 119 branches across Kenya with three in Tanzania, two in Southern Sudan and seven in our subsidiary company Savings and Loan (S&L) totaling 131. We will open in Kenya between five and 10 new branches every year and in Tanzania we have approved two new branches this year to make them five.
Fortunately, we have also been strong in corporate banking and, that way, we are sure of coping with the competition. But we would like the government to improve the legal system and address the problem of insecurity for a better operational environment.

Samwel Wainana, CEO, Family Finance

We are not surprised that the big banks are going back to the rural areas. It just demonstrates their inconsistency and lack of commitment to building this nation. Awhile back, these very institutions closed their rural branch network and even increased their minimum balances to lock out the common man. They felt that dealing with the masses was a nuisance and that they were not making enough money.
Even when the politicians raised the issue in Parliament, one of the banks was so arrogant to the point of saying that let those rural folks go where they belong. And indeed they did. Luckily, for Kenyans, Family Finance, Equity Bank and several savings and credit corporative societies (Saccos) were there to receive them.
Now that the economic fortunes seems to have changed for the better, these banks are trying to go back to see whether Kenyans can receive them. Our stand is that once bitten, twice shy. Kenyans cannot easily forget how they were mishandled and they are going to be the ultimate decision makers. So, as politician Kenneth Matiba would put it, let Kenyans decide.
As Family Finance, to a large extent, we are not threatened by the big banks who are trying to get into the retail business. We believe that Kenyans will stand by us for we stood by them and have been there for them, offering them the services they require. Unlike these institutions, we are very flexible for we can lend a client even Ksh 100 for fare.
Indeed, the idea of going for the masses by the banks today is just copying what we have been doing for ages. For instance, Family Finance was the first institution to give farmers money against their tea deliveries. We have been doing it for over two decades. We have done the same for both milk and pyrethrum farmers and even offer salary advances. For Family Finance, these are transactions that take place across the counter. This cannot happen in the multinational banks.

Adding that human touch to addressing customers' needs is something, I can bet, these institutions will not be able to cope with or achieve.

Reuben Marambii, MD, National Bank of Kenya

In Kenya, we have no specialized banks. We are all practicing universal banking. If a bank has more corporate customers than retail, it is usually not by design. It is just the natural development of business. Citibank is one player who has, somehow, tried to specialize in corporate business.

However, most banks find it easier to make money in corporate banking in that corporate units are easier to deal with. But there are no banks that deal with either only corporate or retail clients in its entirety, at least not in Kenya. This is because corporate clients are not enough. Banks keep on running back and forth between retail and corporate clients in order to make money. It is only that some banks seem to concentrate on corporate clients.

For a number of years, commercial banks have been running after the corporate clients. But they are not enough. The retail market, on the other hand, is large and cannot be exhausted. Clients are now playing one bank against the other. The cutthroat competition is not helping much because one bank ends up losing and gaining clients at the same time as they (clients) move their accounts from one bank to the other, in search of better offers.

In fact, of late, clients ask the bank to quote their rates before depositing with them. Clients are having a field day due to the competition between banks. Hence, customer loyalty no longer exists because of this competition. Why should the client be loyal anyway? They no longer rely on banks for advice as was the case in the past.

The retail market is so large to the extent it is nowhere near being exhausted. We have a lot of Kenyans who do not have bank accounts, especially in the rural areas. This is room for expansion. Retail business is safe due to the ability of the bank to spread its risks as opposed to corporate business where losses are huge in case of a default.

It is emerging that banks that are in the business for the long haul are looking at the retail market. The market, however, has its challenges.

For instance, administrative expenses in retail banking are too high. Opening thousands of accounts and managing them is a challenge. Servicing small accounts is equally expensive. They need more staff and space in terms of banking halls. But in corporate business, one mistake is costly. Nevertheless, the corporate world is better educated, informed and easier to deal with.

One of the best approaches to retail business is developing a large branch network. This gives the bank added advantages, including dealing with customers in their own peculiar local environment.

That said and done, it is worth noting that when most of the banks were closing shop in the rural areas, we bought their outlets. Today, they are trying to buy back the same outlets and we have said no. We now have 31 service points in the country.

James Mwangi, CEO and MD, Equity Bank

I think what is causing all the changes in the banking industry are the fact that retail-focused banks like Equity Bank have demonstrated that, economically, low income people are bankable. Consequently, the banks, seeing how the others have progressed, also wish to have a share of the cake.

This is a demonstration of how a successively targeted market can make players change and reverse their strategy. However, as Equity Bank, we do not feel threatened because the decision on who will be the winner will largely be determined by Kenyans.

History has shown that Kenyans were abandoned by most of the multinational banks and we came to their rescue. In us, they found a new home. I am convinced that Kenyans would naturally vote with their accounts and their decisions will reflect what they have learnt. No doubt, Kenyans are very good at learning and these would often be reflected on their decisions.

But this is a market that has its challenges. First, there is the issue of 'organizational culture'. Not everybody can do this. It takes a special culture to deal with the low income segment of the population.

A company's business model plays a significant role as well. You cannot combine the bottom and top of the pyramid. A financial institution targeting the retail market needs a different infrastructure especially in the information and communication technology (ICT) platform as opposed to one dealing with corporate market. At Equity Bank we have installed a robust, state-of-the-art information technology (IT) system that is suited for the market.

All these factors coupled with an appropriate pricing model gives us a completely different operational environment that needs a bank to readjust into to match, let alone beat us.

Martin Oduor-Otieno, incoming CEO, KCB

We are already in this market. The fact that other banks are eyeing this very same market is a confirmation that we are targeting the right customers. What we need now is to raise the bar a little higher.

Our advantage is that we already have the branch network and the information technology (IT) infrastructure needed for this type of customers. We are looking forward to utilize our strong branch network to derive maximum reach of the customers across the country unlike most of our competitors.

Similarly, when competition crops in, we counter it through introduction of a new range of products while innovating on the existing ones. Additionally, we are in both retail and corporate banking.

I know I am coming in as a CEO (was appointed to the position last Friday) at a time when there is so much change in the competitive landscape of the banking industry in Kenya. This is indeed a very challenging responsibility, but I know that I can rely on the support of KCB's experienced board, its strong and highly qualified senior management team, motivated and hard working staff, our large base of loyal customers and committed shareholders to lead this bank in delivering the expectations of the various stakeholders.

We have to take this challenge head-on, harness the synergy and collaboration of all the management teams so that, together, we can propel KCB to the next level in the realization of its vision which is 'to be the best bank in the region.'

We have the resources, a strong capital base to support growth and investment, highly qualified and customer-focused staff and a great brand. These will be the pillars upon which we will build KCB to the best bank in the region.
I trust that our product and customer service innovation, people training and development and increased involvement in corporate social responsibility will responsively position us in the market.

Mike du Toit, MD,Stanbic Bank
I prefer to look at this issue from a different perspective. Perhaps we need to ask ourselves whether or not the banking industry is slow in developing products for the corporate business. And I think, to a large extent, the answer is yes.
This is because most of the advertisements of the new products are targeting the retail banking sector. But in the retail banking, I do not think that the country is in such a deficit as it were a few years ago. But still a majority of bankable Kenyans do not access banking facilities.
However, in Stanbic, the personal business banking market is about a third while corporate banking constitutes the remaining two thirds, especially in terms of the profits accruing.
Major challenges we are facing as Stanbic Bank, in both retail and corporate clientele is the ever increasing cost of doing business. For instance, it has even become more expensive to transport money via security companies in Kenya.
What exactly happens in Kenya is quite unacceptable. We have too many unnecessary cash-in-transit (CIT) in the country. In other areas where Stanbic operates, we normally have about a single CIT in a day. This would be acceptable.
We should find a better way of doing it. If it is seriously managed as a process, the business model can be changed and such transits are made when it is absolutely necessary.
A number of banks have in the past concentrated more in corporate and Stanbic is one of them. Historically, our group used to be a merchant bank but in the course of the last few years, as a contribution to our business, we moved to incorporate 35 per cent of our business in personal business banking. We are, today, trying to create a balance between the two.
But for any institution to start dealing with retailers in banking it should first have a good branch distribution network. Unfortunately, the Standard Bank Group, under which we fall, does not have that. That is why we concentrated more on corporate clients.
But as far as lending is concerned, there has been poor portfolio performance especially through non-performing loans (NPLs). But a quick look at NPL portfolio over the last couple of years would reveal that they have not been on the corporate side for long time.
A look at other banks whose businesses concentrate on personal banking gives you a feel that the effects of NPLs is in both corporate and retail banking.
So, the key issues on how to address it and what the industry has already done has been on how to manage the business both in retail and corporate. For example, we are involved in Telkom Kenya's restructuring process. For such a particular client, we have to manage as well as monitor it to its logical conclusion. But it gives us good returns.
For us to gain a similar amount through retail banking, you can imagine how many thousands of such transactions we are supposed to handle. That is why we might not be in a hurry to open up branches in rural areas.
This is because I do not think it makes a lot of economic value for us to go into a rural town where there is already, say, a KCB, Equity or NBK branch. Our branch distribution network will be a well considered move when it comes to our expansion strategy. Our first question will be the value we are adding to the community.

Mark Myers, Executive Director,
Client Relationships, East Africa, Standard Chartered Bank
Most of the international banks have previously been involved in retail banking. However, because the market is becoming more competitive, one might think that the middle class is becoming larger. This is not necessarily the case.
The ideal scenario is that the middle class is getting more money and the upper class is getting richer but the poor are also improving. On the overall, banks are becoming more competitive for fewer consumers.
But the industry is not all different. Whereas retail banking is about visibility like anything in the consumer world, wholesale banking takes an expert to seat in front of a chief executive of, say, a big company and show him or her how a merger or acquisition can work.
For instance, I come from wholesale banking, by and large; I see as much activity in both retail and wholesale banking. The latter, however, is driven by a lot more activities in the market place including privatization, infrastructure improvement and companies improving their capacity. And much of these are in the private sector.
For consumer banking, we go for people with more disposable income. There are also the small businesses which in some banks are run as wholesale banking clients while in others they are run as retail banking, as is the case in Stanchart.
It is also important to note that as the economy grows, big businesses grow as much as the small businesses around them. The more people have disposable income, the higher the number of bankable Kenyans. That is why banks are more visible in the retail banking, especially now.
However, risk management dictates that corporate banking is a better risk since one can easily scrutinize the audited accounts of the clients. Therefore, the transparent accounts of the corporate client reduce the banking risk. For a retail banker, results might not be available depending on who the individual is.
In Kenya, there are no credit reference bureaus and that means we cannot tell the credit track record of an individual. In other countries, we run a credit search to tell us how the individual rates in terms of creditworthiness. That is why, in Kenya, most banks demand security to reduce the risk.
Whereas consumers can argue that banks ought to give them money because they are good guys, the fear of the banks is that much as they can learn from the individual who might be having a job and income, they cannot tell whether one spends all the money, say, in a casino or bar. So, there is no knowing whether or not one is a good risk. This makes corporate banking easier despite the challenges.

However, a quick view across the sector reveals that the banking industry in Kenya is showing good yields in terms of profits. When banks make profits, people will often say: “Yeah we knew it. They have been stealing from us.” But nothing is said when other corporate companies post billions of shillings as profits.
Nevertheless, the cost of banking in Kenya is very high and this is a challenge to us. Looked at from both the client and bank perspectives, this is a disadvantage. Maintaining high quality of services backed with the requisite technological expertise is costly in Kenya besides other issues like insecurity or fraud.
In fact, the latter two have created the perception that banks are reaping off their customers and comments like, ‘we knew it’, are all over that place whenever a bank posts billions in profits.

SPORTS TOURISM

Kenya eyes a trillion shilling market

By Guchu Ndung’u

As Kenyan athletes dashed for gold at the just concluded World Cross Country Championship in Mombasa over the weekend, many tourism sector stakeholders were watching with bated breath for the event’s successful hosting.
For Kenya’s dash for the sports tourism, one of the fastest growing and lucrative forms of tourism; will depend on the verdict of the international community on the Mombasa event.
The negative or positive perception about the hosting of the event is going to provide a yardstick for measuring Kenya’s ability to gain a foothold in the global sports tourism market.
Keen to add to the Ksh 56 billion earned from tourism last year, the country is rolling out different initiatives and funding to get a pie of sports tourism, currently estimated to be worth over $60billion (Ksh 4.2 trillion) or 10 per cent of the total global tourism market.
Sports tourism encompasses both fans traveling to watch sports and people pursuing their sports abroad.
The Tourism Trust Fund (TTF), a joint fund between the Kenyan government and the European Union (EU) which finance tourism related projects, has thrown the first dice into sports tourism by setting aside Ksh 21 million for the development of water sports in the country.
According to TTF Chief Executive Officer (CEO) Dan Kagagi, the money will be used to develop two areas; Tudor Creek in Mombasa and the Masinga Dam in the Tana River basin.
The funding will be used to purchase numerous rowing boats, marine safety equipment, kayaks and canoes.
“In conjunction with the Kenya Water Sports Trust, we are developing sports water tourism as a niche product,” says the CEO.
It will also help train local guides for water sports besides being used to market facilities of the Kenya Water Sports Trust, which is headed by former Kenya Tourist Board (KTB) Managing Director and son of opposition politician Kenneth Matiba, Raymond.
Keen not to remain a laggard in sport tourism, the management of the Sports Stadia Management Board led by CEO Sam Mwai, has already spent Ksh 50 million in the refurbishment of stadia in the country.
The CEO says the board, whose mission is to manage, develop and market sporting and recreational facilities to the satisfaction of stakeholders, has moved a notch higher and is targeting both local and international sports tourists.
“We are in the process of developing sports programmes that will bring together Kenyan teams and communities to use stadia as training and playing grounds. Currently, this strategy is working very well in our swimming pools especially at Moi Sports Centre-Kasarani, which is now attracting a large part of the surrounding community and Kenyans from various regions,” Mwai says.
Earlier this year, a team from the board led by its chairman and former Nairobi mayor Joe Aketch and Mwai visited South Africa in a bid to explore the possibility of partnering with various organisations associated with the organisation of the 2010 Soccer World Cup.
The team held meetings with sports channel *Super Sport* and local (South African) organizing committee of the World Cup on the possibility of using Kenya not only as a training ground for the teams that will take part in the World Cup, but also as a host to various conferences and seminars that will be held in the run-up to the global sporting bonanza.
Micato Safaris, a travelling agent, has also cut a niche in the market of sports tourism and in the recently held World Cross Country Championships; the firm brought in tourists whom they took on a tour of the Western Kenya tourism circuit, through training camps and a stay with the athletes before flying them down to Mombasa for the championships.
“We are also bringing in tourists who just want to see our athletes. Though not popular here, some of our athletes are a household name in Europe and people pay to come and see them and where they live,” says Micato Safaris tour manager Cliff Lumbasyo.
And if the figures from the Ministry of Tourism are anything to go by, the efforts are bearing fruits.
According to Kennedy Manyalla, the research and development manager at KTB, sports tourists in Kenya increased by a massive 81 per cent in 2006 compared to the previous year.
“But the numbers were low compared to other subsectors.However, with more marketing and coordination of efforts, Kenya has the potential of recording even higher figures.”
Also, as a result of the TTF funding and efforts by other stakeholders, Kenya has been chosen as the venue for the trials for teams to qualify for Canoeing and Kayaking in the 2008 Beijing Olympics.
The water sports event will use the facilities at the Masinga Dam and Tana River and is expected to bring hundreds of visitors from all over Africa apart from giving the country unparalleled publicity.
The Sports Stadia CEO also points out that the local facilities have managed to attract the attention and wallets of teams competing to qualify for the World Cup in South Africa. He cites the case of Cameroon’s national soccer team which trained for the qualifiers amid the controversy after the local national team Harambee Stars was bundled out of the complex to make room for the Indomitable Lions.

To get a head start in sports tourism, the country needs to tackle various challenges, top among them; sports apathy among Kenyans.
For sports tourism to grow, Kenyans and the local population should first embrace it and promote sports.
“We need to nurture sports right from the tender age. Young people should not view sports as a punishment but a hobby,” says Dr Kagagi.
Also, Kenya needs to market herself as a tourist destination and minimize the incessant wrangling at sports associations such as those bedeviling the Kenya Football Federation (KFF), which through world soccer governing body, FIFA, has cast a bad light on the country’s sporting arena.
The major stumbling block to Kenya’s run for the market has been the seemingly never expiring and devastating advisories by the American government over the alleged terrorist threats; and the Mombasa athletics championship was no exception.
The threat, extensively covered by the local media, was picked up by the international media and beamed around the globe.
Reaction from the New Zealand delegation was typical. Athletics New Zealand said it was reconsidering its decision of bringing athletes to Mombasa unless they were assured of safety, a condition which was, however, met. But this is not the first time the New Zealanders were procrastinating over the advisories. Four years ago, the Kiwis refused to honour their cricket World Cup match fixture against Kenya citing terrorist threats.
But it took the concerted efforts of the Sports, Internal Security ministers and other high ranking government officials to calm the fears which were exacerbated by a section of Muslims’ threats to disrupt the event in protest against arbitrary arrest of their colleagues on terrorism charges.
Lack of facilities and money to bid for major sports events has also barred Kenya from joining the sports tourism’s major league. The Mombasa championship, for instance, galloped over Ksh 500 million in preparation and upgrading of facilities.
Manyalla adds that the hospitality industry needs to be given incentives to increase the bed capacity to cope with the rising demand caused by an upsurge in tourist numbers.
“We need an extra 25,000 beds to cope with the rising numbers. Currently, getting decent accommodation in Mombasa is a Herculean task as hotels are booked up to Easter. Tourists are getting disappointed by lack of space thereby ending up booking themselves elsewhere,” says the KTB official.
Dropping of some of Kenya’s sports events from the international calendar has also had the domino effects of contributing to the waning of their stature and eventual decline in the number of sports tourists.
For instance, when the Safari Rally was dropped from the World Rally Championship(WRC) circuit, it saw a dramatic decline in its stature condemning it to a local event attracting only a handful of international drivers, a far cry from its hey day when it was the ‘toughest rally in the world’ attracting as many as 3,000 sports tourists.
The rally was given a lifeline this year when it was returned to the International Rally Championship, a global rally organization which is still inferior to the WRC stature.
Nevertheless, the Kagagi-led TTF is not daunted by the challenges and has identified three sports as the next frontier in sports tourism. They are athletics, golf, water sports and mountain climbing.
Apart from marketing, its record breaking athletics facilities like the Kip Keino Training Centre, which is one of the seven IAAF (International Athletic Association Federation) high performance training centres worldwide, are also an added advantage.
In golf, TTF and KTB are using the big four initiative that aims to market four golf clubs of Muthaiga, Windsor, Nyali and Limuru Country Club.
The most internationally known local event is the Kenya Open Golf tournament that attracted over 120 golfers last year from various parts of the world.
Most stayed at the Panafric Hotel in the city and, according to the Kenya Golf Union, the event is one of the many scheduled to tap into the 60 million golfers worldwide and the $ 12 billion (Ksh 840 billion) that the beloved sport brings into the sports tourism market.
The big four initiative is derived from the big five initiative that saw the marketing of the country as the home of the five animals- lion, leopard, rhino, elephant and buffalo- that trophy hunters used to go after.
“We are exploring sports that have the potential to attract high priced tourists and which Kenya is naturally endowed to host,” points out Kagagi.
The CEO says that TTF is targeting the three biggest mountains, namely,”Mt Kenya, Mt Elgon and Mt Kilimanjaro by offering excellent mountain climbing facilities which the fund aims to develop.
While the development of sports may look uncoordinated, analysts point out that it is a well calculated move to ensure Kenya not only maintains its position in the African tourism market but also gain a competitive edge against its African rivals.
For it is not lost to observers that Kenya’s African competitors are all sports powerhouses and are digging in by either building or renovating their infrastructure for various anticipated sporting activities.
Kenya is ranked fourth among the top tourist destinations in the continent wit the top three spots being dominated by South Africa, Tunisia and Morocco.
South Africa is spending over R2.3 billion (Ksh23 billion) on infrastructure development in readiness for the World Cup where it expects to attract 235, 000 tourists, generate an estimated R12.7 billion (Ksh 127 billion) in direct spending and create an estimated 159, 000 new jobs.
The 2010 tournament will pump R21.3 billion (Ksh 213 billion) into South Africa’s economy and its revenue authority will also be smiling at the prospect of an extra R7.2 billion (Ksh 72 billion) in its coffers.
Morocco has also upped the ante as was evidenced in its bid to host the 2010 World Cup, which went to South Africa, when it pledged and guaranteed the financing of all stadia construction amounting to $ 862.1 million (Ksh 60.3 billion).
Despite South Africa winning the bid, Morocco is soldiering on with the construction of new stadia facilities.
Tunisia already boasts of the state-of-the-art facilities and hosted the 2004 African Cup of Nations.

In addition, Kenya's Tourism Market Recovery Programme(TMRP), which was a Ksh 500 million marketing strategy launched after the 2002 Mombasa terrorist attacks has worked and the country's golden goose is slowly coming out of the woods.
The TMRP is the most successful tourism marketing campaign in Kenya's history and, last year, Kenya hosted 1.8 million tourists, a figure that is higher than the pre-terrorist attacks.
The challenge now is to maintain and increase the figures and tourist stakeholders, therefore, have to come up with innovative niche targeted tourism like sports tourism.
"Sports tourists are generally more high spenders and repeat visitors. They are good clients," says Lumbasyia of Micato.
Hotels have realized that and have put up facilities with Panari Hotel installing an Ice Solar rink, one of its kind in East and Central Africa and which can accommodate 200 skaters at a time.
The rink, which is the largest in Africa, was built at a cost of $700,000(Ksh 49 million) and targets both local and international skating and ice hockey tourists.
Diani beach also has skydiving facilities where adrenaline junkies lurch from 14,000 feet above the ground, falling earthwards at 120 miles per hour from specially suited aeroplanes.
Skydivers from 16 different countries participate in the Kenya Skydive Boogie, an event held annually in the hotel for the past decade.
Whether Kenya will run off with the sports tourist market in Africa or skydive in the eyes of that crucial market will depend not only on how the international community evaluated the just concluded athletics champions but also how the country does its marketing.

Time to end medical brain drain

By **Samwel Kumba**

Talk of brain drain and all its demerits come to mind. And when you talk of medical brain drain, the sentiments are even stronger. It becomes a matter of the heart. But, may be, it is not all that bad, after all.
However, experts agree that brain drain otherwise known as capital flight, which is an emigration of trained and talented individuals (human capital) to other nations or jurisdictions, due to conflicts, lack of an opportunity, or health hazards where they are living, can cause havoc if not well contained.
And what are its positive contributions anyway? Brain drain has been associated with new skills when migrants return, remittances from skilled migrants which often boost household welfare and support a country's balance of payments.
Nonetheless, when the rate of erosion is higher than the rate of deposition, then obviously the problem becomes hard hitting. In medicine, brain drain is reducing the already low quantity of skilled manpower available in African countries and yet they are needed for the continent's development.
But one Asmita Gillani, the Chief Executive Officer of the Aga Khan University Hospital (Nairobi), has vowed to take the bull by its horns and try to address the predicament.
When *The Financial Post* sought her views on how to stop brain drain and unnecessary outsourcing of medicare, Gillani was categorical: "That is one big agenda that I am trying to address here."
She reasons that people, often, seek medicare outside the country because they lack confidence and she argues that in order to restore that confidence, the country has to offer high quality medicare as well as training. She is willing to lead by example.
"We intend to be the first hospital with linear radiation for oncology treatment and want to build the confidence that way. Our agenda is to build Kenya in terms of human capacity in healthcare and make Kenya self-reliable in the health arena," she says.
To lead by example, Gillani reveals that the Aga Khan Hospital will employ key experts aimed at establishing how Kenya can train local doctors with new techniques applied globally.
She explains: "It is, therefore, a much bigger challenge for us if we have to retain our graduates within the country. It is a real pity when we train doctors and they leave the country as it happens in other professions. You might not believe this, in Western countries, including Canada where I come from, countries are very keen in importing professional labour because they are going though a negative population growth. They have a high baby boomer age group that requires a lot of healthcare yet they lack enough health professionals."

Employer treatment

Arguing that the job market is now global rather than country specific, Gillani articulates that if the country has to retain her trained staff, then the employers have to be exceptionally good and trainees (be) good citizens.
As an employer, how does she ensure that she is good?
"I spend as much time on employee satisfaction as I do on client satisfaction. I believe that if our staff is happy, then our clients will be happy. Happy staff makes patients happy."
The greatest challenge for her is that Aga Khan University (AKU) Hospital graduates are easily acceptable into the global market especially in the United Kingdom where they secure better employment packages.
"We are, however, trying to establish how we can entice some Kenyans back after acquiring the Western experience," Gillani divulges.
If successful, then Kenya would be free as far as negative effects of doctor's brain drain are concerned. Ordinarily, brain drain reduces numbers of dynamic and innovative people, whether entrepreneurs or academics, increases dependence on foreign technical assistance, slows the transfer of technology and widens the gap between Africa and industrialized countries, negatively affecting the continent's scientific output and money is lost in form of income tax revenues and in potential contributions to gross domestic product.

Global trends as at April last year indicate that in several countries, including Kenya and Ghana, the brain drain of medical professionals is threatening the very existence of the countries' health services. Kenya loses an average of 20 medical experts each month. Are these brain drain figures not quite staggering?
In fact, already the World Health Organization (WHO) has warned of the 'deadly impact' of a shortage of medical personnel in developing countries. Ironically, poor countries are subsidizing rich countries by 'sending' thousands of doctors and nurses into those countries.
Developing countries are facing a critical shortage of health workers because so many of their doctors and nurses are leaving for the green pastures in the rich countries.
Although WHO recognizes that migration of health workers generates billions of dollars in remittances, it also takes cognizance of the fact that when doctors and nurses leave, the countries that financed their education lose a return on their investment and end up unwillingly providing the wealthy countries with a kind of 'perverse subsidy'.
According to the International Organization for Migration (IOM), in Kenya, for example, it costs about Ksh 2.8 million ($40,000) to train a doctor and between Ksh 700, 000 and Ksh 1 million ($10,000-$15,000) to educate a university student for 4 years.
Raising the alarm bell, WHO says the world is short of 4.3 million medical personnel thereby having a 'deadly impact' on the countries' ability to fight diseases or respond to new challenges like avian flu.
In 2005, Kenya lost 2,998 graduate nurses to other countries-mostly to the United States and Britain.

Impressed

Expressing her confidence that Kenya is on the right track as far as the health sector is concerned, Gillani applauds the government's intended plan of making healthcare not only affordable but accessible to all Kenyans.
She explains: "I am impressed by what Kenya is trying to do and I think it is swiftly moving towards a good safety net for her people. And I think that it all boils down to income distributions and tax collection vis-à-vis how much the country can afford to provide for her citizens. I was part of a consulting group at the University of Toronto who sought to address the health situation of the Caribbean Island, though not similar with Kenya's, but there are quite a number of similarities. So when I see Kenya struggling to grapple with-how to finance healthcare it is not a new phenomena to me. It can be achieved."
Gillani recommends that a country like Kenya should ensure that there are good systems for revenue collection and distribution which will ultimately decide how much funding is available for the government to provide a basic level of healthcare.
"I think some of Kenya's government hospitals are struggling with their budgets and, just like in Canada, they are turning to innovation by looking into ways of meeting the citizen's healthcare cost," observes Gillani.
Labour cost is very significant in healthcare and the entire service industry. Whereas governments want to ensure a good level of minimum wage without compromising healthcare, Gillani says the whole issues is rather complex.
"The ultimate solution lies in income distribution and how the tax shilling is spent. It is all about income distribution. That way, the country can look at the vulnerable and the underprivileged," reiterates Gillani.

High cost

Asked why the Aga Khan Hospital, a non-profit oriented institution, is a high cost hospital, Gillani expounds that cost is relative.
"If you compare us with other players in our category, you will realize that we are about 30 or so per cent cheaper. But apart from holding the comparison, I think good high quality healthcare is costly. It is not cheap. But where we can reduce the costs is where the service can be offered in an alternative setting, at a lower costing setting like in our satellite clinics. This keeps our costs lower," she explains.
Arguing that Aga Khan is always looking at opportunities for cost containment, Gillani reveals as much as she is a businessperson, she is heading a non-profit making organization, bestowing upon her a duty to ensure that she applies good business principals that would keep her service affordable.
Gillani explains: "I am always worried on how I can offer my services at even cheaper rates. That is why I always want us to price ourselves lower than other providers. We achieve this through bulk buying and minimizing other measured expenditures. However, bear in mind that we are a university hospital. That means we have a large cadre of specialist doctors and we have a training agenda. Our trainees have to be exposed to the very best. That is why we have the best equipment with the best technology, which are all costly. But we would like to be a model training institution where trainees do not have to go abroad for more training. It is a challenging agenda but we hope to achieve it."
But one question persists: What can be done about the brain drain? Perhaps one measure to stop the medical personnel from leaving the country is by asking the poaching countries to pay back the cost (or some of it) of their training. But again, this might be a difficult issue.
It is hard to reconcile the extremes of 'poaching practices by rich countries' and respecting the choice of an individual to pursue a better way of life. The WHO suggests that governments take measures to encourage doctors and nurses to stay, for example, by improving pay and working conditions.
The subsidy paid by the government to train a doctor or nurse can be calculated, and this amount should be repaid to the government if there is medical migration. The cost can be paid by the country to which the person is migrating, as it would be gaining from the transfer ''human capital' which has been trained at great cost by the country of origin. But whether or not that solves the whole issue of brain drain, time will tell.

Dairy Industry

Dairy sector reforms begin to bear fruits…

As Kenya targets export market

By **Mwangi Maingi**

As other economic sectors struggle to come into terms with low earnings and a volatile shilling, the dairy industry is enjoying good tidings.

Even though the sector has in the past faced a number of challenges, the past four years has seen milk farmers and marketers in dairy products reap huge returns, spurred by rising demand for their products in the local market.

According to Kenya Dairy Board (KDB) Report 2006 availed to *The Financial Post*, Kenya has about 3.3 million livestock of milk producing ability and 70 per cent of total milk production comes from grade and zebu cattle. Milk production is in excess of 3.1 billion litres per year and the country is self-reliant in milk and milk products except in years of drought.

"Milk production has increased over the years with most of the dairy cattle concentrated in Central and Rift Valley provinces. Rift Valley Province with about 52 per cent of the total population is leading followed by Central Province 31.3 per cent, Eastern 9.4 per cent, Nyanza 4.7 per cent and Western 2.6 per cent," the report says.

On average, the inbuilt capacity of Kenyan processors is estimated at 2.5 million litres per day. They produce a wide range of products, namely, fresh milk, yoghurt, mala (sour milk), ice cream, cheese, UHT (Ultra High Temperature) milk, powder milk, butter and ghee.

All these products and others yet to reach the market have been due to liberalisation of the milk market.

"Competition in milk processing and marketing has increased significantly in the industry. We have so far licensed over 40 private and dairy co-operative processors to process and market milk and milk products," says Paul Ndung'u, a technical officer at KDB.

KDB is the main legal and regulatory body for the dairy industry. It has the responsibility of developing, promoting and regulating the dairy industry. It is also charged with developing efficient production, marketing, distribution and supply of dairy produce required by different classes of consumers

Kibugi Kairi, a milk vendor in Kiambu operating a milk shop at Nairobi's Kangemi Estate, says since the milk sector was liberalized four years ago, he has witnessed tremendous growth of the formal market though still there is preference for hawked milk by many.

"Processors sell pasteurised milk in packages to formal retailers for about Ksh 46 to Ksh 48 per litre who then generally retail it for about Ksh 50 to Ksh 52 per litre. On the other hand, milk bars and hawkers retail raw milk at between Ksh 30 and Ksh 35 per litre to poorer clients," he says.

He says, whereas he may sell only nine half litre packets of processed milk, there is, however, a booming business in raw milk. He sells not less than 20 litres of raw, whole milk daily.

According to KDB, the sector was liberalised to encourage private investments (including co-operatives) in milk processing and marketing thereby assisting in the deregulation of both producer and consumer prices.

Ndung'u adds: "Liberation of the dairy market led to the evolution of a large informal sector, which compromised the quality of marketed milk due to poor handling practices. The market dominance previously enjoyed by the then Kenya Cooperative Creameries (KCC) was challenged and the firm's operations declined."

Ndungu explains further that the new private processors who entered the market had limited processing capacity considering the supply of milk. This led to reduced milk intakes giving the informal sector a chance to grow.

The trend, however, has changed with the influx of many small scales processors. Generally, informal milk outlets absorb most of the milk from smallholder farmers accounting for over 56 per cent of the total milk sold, while formal market accounted for 14 per cent of all the total milk produced.

The major concern, according to KDB, has been the quality of the milk that gets into the market from these processors.

Perhaps this is what triggered Livestock and Fisheries Minister Joseph Munyao to recently direct KDB to register all milk producers and dealers as provided for by Dairy Industry Act.

"As part of quality control measure for dairy products, registering the dealers and producers, inspecting and certification by the board would ensure all meet set standards. This will enable the industry to exploit commercial markets in the region for the products," Munyao said.

The revival of the New Kenya Cooperative Creameries (KCC) with the support of the government in its efforts to formalize the market has added a new note to the tune of dairy market in Kenya.

For instance, the government recently released Ksh 600 million for the purchase of powdered milk from New KCC, the only processor with the capacity to produce powdered milk in the country, to be incorporated in the country's strategic food reserves.

KDB says the government's move is aimed at mopping up the surplus milk from the market due to increased production the dairy sector is facing today.

This is part of the long-term solutions for the dairy market stakeholders aimed at addressing the surplus production, which the Livestock minister attributed to investor confidence in the dairy industry, and the growing economy.

This has increased the competition in the market, a fact that could be fueling new developments in seeking more markets in the region and international market.

"Exportation of dairy products from Kenya is not new in the sector. It is only that due to the informal markets that have been in operation in the past few years, no regulation and system could be placed on the exportation of dairy products," KDB says.

With the minister's direction for registration of all stakeholders, it is expected that the quality of milk products will improve, competition will increase hence making it possible to sell the surplus to the international market.

"Export markets are crucial for the short- and long-term growth of the dairy industry. As projections would indicate, there will be surplus production in the foreseeable future. This excess has to be offloaded to the export market," Ndungu concurs.

Kenya has the potential to export dairy products for having the largest and well-developed dairy cattle in Sub-Saharan Africa. Indeed, Kenya and Sudan are the largest Sub-Saharan Africa dairy producers accounting for 47 per cent of the total cow milk produced.

According to KDB, 360,148,736 litres of milk were supplied to processing plants in 2006 compared to 339,534,696 litres in 2005. This shows that the amount milk production would continue to increase.

But the sector faces challenges including unfair competition from imported dairy products according to Brookside Dairy Chairman Muhoho Kenyatta. This has made Kenya unable to compete with developed countries like Europe and the United States (US).
“There has been cases of subsidies extended to value-added products like butter and milk powder from the European and US countries, hence leading to flooding of the local market by imported products creating unfair competition to local products,” Muhoho said.
Other challenges that the dairy market faces include the adulteration of milk with water by farmers who are after quantity for money not quality.
A New KCC factory at Sotik, Rift Valley has been on the spotlight for weeks after the factory rejected over 135,000 litres of milk collected from the farmers.
Confirming this, the firm’s production manager Geoffrey Bartenge said the action was taken due to low butterfat content as required by the standards in the East Africa Community member countries.
Bartenge echoing the Livestock Minister on product quality, said that for dairy market stakeholders to survive the competition, they must produce products of high quality.
For the dairy market to compete locally and internationally, there is need for the market regulator to enhance quality control of the products and establishment of marketing arenas for the benefit of all.
“We can achieve a niche in the international market if we embrace Good Agricultural Practices (GAP) and Good Manufacturing Practices (GMP). This will ensure an effective product traceability mechanism thus meeting the set international standards,” says Munyao.
What about expanding the local market? KDB believes that to increase the local consumption per capita, there is need to sensitize Kenyans to incorporate more milk in their diet.

(Read an exclusive interview with the New KCC Managing Director in the coming issue)

SUGAR INDUSTRY

Uncertainty grips the sugar industry

By **Jackson Okoth**

There is now widespread anxiety within the country’s sugar industry following delays by various sugar factories to modernize their operations in readiness for the opening up of the domestic market for imports from the Common Market for Eastern and Southern Africa (COMESA) region.
Dr Evans Kidero, the Mumias Sugar Company (MSC) Managing Director (MD) told *The Financial Post* in an interview that the country’s sugar industry is not yet ready for imports from COMESA.
“These safeguards were put in place to enable the local sugar industry develop and compete effectively. The period was for the sugar factories to modernize their operations, through a programme involving divestiture by the government and injection of private capital for modernization into these factories, most of which have dilapidated machinery and equipment. This has not been done,” said Dr Kidero.
He explained further that apart from MSC and West Kenya Sugar Company, the only private sugar companies who have been able to modernize, the rest of the sugar factories will not be able to compete in the event that the COMESA safeguards were to be lifted, opening the floodgates for imported sugar into the country.
Presently, Kenya has an agreement with the COMESA trade bloc on sugar imports. Under this free trade agreement facility, COMESA countries may export sugar to Kenya of up to 200,000 metric tonnes duty free. Any exports above this are subjected to 100 per cent tax. The aim of the punitive tax is to protect the local sugar industry. The tax waiver expires in February 2008.
Figures from Kenya Sugar Board(KSB) indicate that reforms for the entire sugar industry, including modernization of all old-technology factories requires a capital injection of an estimated Ksh 45 billion, according to the industry’s strategic plan.
“We have already spent more than Ksh 1.5 billion to modernize our operations. We are thus able to compete with COMESA imports,” said Dr Kidero.
Recent announcements by MSC that it had recorded a decline in pre-tax profits for its half-year period ending in December 2006 sent shock waves through the entire sugar sector.
This is because MSC is the largest processor of sugar in Kenya with an annual capacity of 520,000 tonnes against the national annual demand of 600,000 tonnes.
Its current annual production is 285,000 tonnes a year, which is below its capacity. About 50 per cent of the locally consumed sugar is produced by Mumias.
Mumias is now a household brand thanks to extensive marketing and branding campaign. This has ensured that Mumias sugar sells at premium prices compared to other local brands.
Given its size, asset base and profile, a decline in performance at MSC resonates through the entire sugar sector, according to Peter Kegode, chairman of the Sugar Campaign for Change (SUCAM).
“Mumias has also been operating in an industry that is under siege. There is uncertainty concerning expiry of the COMESA safeguards in February next year. The challenge for the entire sugar industry is to rise to the occasion and put in place mechanisms and robust programmes that will secure an extension of the COMESA safeguards,” says Kegode.
“If these measures are not taken, then the whole industry could collapse and the consequences of this will be in untold proportions, including loss of livelihoods to over 6 million people who depend on the crop and the sugar industry,” he added.
The turbulence in the sugar sector has not spared the equity market either, with the price of Mumias shares declining from Ksh 49.50 in January to the Ksh 28.00 range by the close of trading on March 21 this year.

“Mumias shares are one of the most heavily traded stocks at the Nairobi Stock Exchange (NSE), making it one of the volume shares at the bourse. What we are witnessing is not unique to Mumias shares alone. The market is exhibiting a correction, given the fact that it has been over-performing,” said Kegode.

He mentions further that the market has shed more than Ksh 110 billion over the past months, affecting share prices of almost all listed companies.

“It is the speculators who have been hurt by this market correction. Institutional investors, who discern the markets movement will hang around, until after the correction,” said Kegode.

He argues further that the general decline in share prices, including those of Mumias, have not been influenced by technical fundamentals, that is, well researched information that is able to inform investors on their investment decisions. Investors should examine the fundamentals for each company listed at the stock exchange; including factors that drive the company, its management capability and profitability track record. Also, they should examine why it is performing the way it is, what strategies the company is putting in place and all other issues that impact on performance.

“Mumias share is still a good stock, especially for long-term investors. If the COMESA issue is resolved, we are likely to witness an aggressive share as the industry gets a new lease of life” said Kegode. “For a company that has been on top of its game, with a large asset base and considerable investor confidence, any management issues are unlikely to affect the company and could only be a short-term issue,” he added.

The half-year financial results for the six months ending in December 2006 indicates that MSC recorded a decline in pre-tax profits to Ksh 627 million down from Ksh 1 billion over the previous period.

This was a slowdown considering its income statement for the year ended June 30, 2006 showed a pre-tax profit of Ksh 2.2 billion compared to Ksh 1.7 billion in 2005.

“This decline in performance was due to factory breakdowns, cane fires and drought which adversely affected our operations. Towards the end of the year, heavy rains made it difficult for us to get cane from the fields. As a result of the drought, we ended up harvesting low-yielding young canes, leading to low production,” said Dr Kidero.

Available figures indicate that Mumias Sugar’s sugar production was up in the first quarter of 2006 reaching 24,958 tonnes in January 2006.

This production level begun to decline from 21,628 tonnes in May to 13,160 tonnes in December 2006.

Curiously, it is during the last quarter of last year, during the company’s half-year period, that the price of sugar shot up to Ksh 120 per kilo from Ksh 70.00.

It was also during the last quarter of last year, beginning in October 2006, when the KSB brought to the attention of the government the low and declining stocks of domestic sugar held by the sugar companies, including Mumias.

Mumias was experiencing inadequate supply of mature cane for processing in the factory’s zone. Its stock position deteriorated further in November due to countrywide heavy rains that made harvesting difficult and recoveries low.

Market intelligence reports show that for two weeks in December, Mumias Sugar could not crush cane because there was a breakdown in the dewatering mills. At the same time, harvesting was paralyzed by cane cutters who were demanding higher wages. This disruption along with other problems resulted in about 50 per cent drop in sugar production in the month.

Dr Kidero now gives the assurance that all is back to normal. “We have now recovered and our production is back to normal,” he said.

Industry watchers say that MSC has so far been able to perform under difficult circumstances, especially due to the fact that the policy environment has been unsupportive.

Despite its huge potential, especially in renewable energy, power generation and other high value added products, the sugar industry in Kenya remains inefficient and uncompetitive.

For a company like Mumias, it has had to expand by bringing on board large commercial operations, including its proposed Tana and Athi Rivers basin project.

Mumias has also had to face the challenges posed by small-holder farmers, who are highly fragmented, leading to shrinkage in cane supply.

The company is also expanding its power generating capacity and 25MW will be added to the national grid from November 2008.

Meanwhile, the factory-specific problems cannot override the risks faced by the entire industry were imports from COMESA to be allowed into the country after February next year.

“The COMESA issue is much bigger than the factory-specific risks, which take a back seat in the risk profile. Internal problems in the factories are small compared to the threat posed by imports from COMESA,” said Kegode.

It still remains to be seen whether the industry will rise up to the occasion and restructure ahead of the expiry of the COMESA safeguards.

Miwani Sugar Company has virtually collapsed while Muhoroni is yet to come out of receivership. Other factories, wholly-owned by the government including Nzoia, Chemelil, South Nyanza (Sony) and Muhoroni are all having serious under-capacity problems. The clock is ticking.

It is now widely accepted that perhaps the government needs to get out of the sugar business.

Mergers and consolidation of some of the sugar industries with Mumias taking over some of the factories are options that the industry could consider. Then a larger area for cane supply can be acquired and developed.

“Privatization in the sugar industry must be fast-tracked to increase accountability, reduce heavily vested interests by public servants pursuing personal interests as opposed to public good, manipulation of policy to suit the interest of a certain group of politicians and individuals,” said Kegode.

Failure to address the problems posed by removal of COMESA safeguards can be attributed to lack of a strategy on how to best position the interests of the country, in terms of regional or multilateral agreements.

Kenya has been under COMESA agreements for over 8 years with two extensions. With the expiry date in February 2008 looming large; Kenya must put up a credible case before it can secure another extension of the safeguards.

It will have to demonstrate the impact of the removal of the safeguards on the livelihoods and sugar industry as a whole.

“Most of those importing sugar into the country from the COMESA region do not adhere to the WTO rules of origin. If we can demonstrate sufficiently that these countries do not adhere to the multilateral trade agreements, then Kenya can successfully plead its case for an extension.”
Kenya’s sugar industry appears to be lying on a faulty framework. This is the message that is coming out clearly. The expiry of the COMESA safeguards could thus be a blessing or doom in disguise.
“It could mark the beginning of a new, efficient, vibrant and aggressive industry, depending on what it will do in this extremely short period. It could also spell doom on the industry and the livelihoods of millions of Kenyans. What Mumias and other factories do in the next quarter may well decide whether they will sustain investor confidence in the industry,” said Kegode.