

Kenyan SMEs set the regional market ablaze

By Guchu Ndung'u



When African Air Rescue (AAR) opened an office in Rwanda in 2005, the Kenya medical insurance provider was buoyed by its success. For in one year, it had netted over 2,600 clients and prospects were good.

But on November 1, 2006, the Rwanda National Insurance Commission (NIC) stopped the company from conducting further transactions until "it had been properly registered."

At stake is a \$ 465,000 (Ksh 33 million) investment and future of trade relations between Kenya and Rwanda.

NIC, which is the Rwandese insurance regulator, had construed the medical provider to be an insurance company while AAR is a medical care provider.

"While we take premiums, we do not underwrite the risks but they are reinsured with Lloyds of Britain. We are not therefore an insurance company per say," explains AAR Communication Coordinator Angela Mumo.

"Our mode of operations is still relatively new and we had to explain how it works. They decided to register us as brokers but it is not working out as the relevant legal structures are not in place," she adds.

Moreover, the company has been stopped from conducting further business and recruiting new members until the issue is

resolved. The company had already constructed a clinic in Kigali and was recruiting staff when the NIC letter landed on its lap.

She says the company was registered by the country's national investment agency, the Rwanda Investment and Export Promotion Agency (RIEPA).

"Rwanda is a good market but we cannot continue to incur expenses without expanding," says Mumo.

AAR's determination and experience can be replicated in many small and medium enterprises (SMEs) across Kenya as they angle to get a slice of the regional market.

Previously a preserve of corporations and multinationals, Kenyan SMEs are responding to the siren call of the regional market and effectively positioning themselves to nibble at the Kenya's export businesses to the Common Market for East and Central Africa (COMESA), a figure that hit a whopping Ksh 69 billion in 2006.

"They have been buoyed by the success of transnationals in the region and their growth in the last few years has been tremendous," says Hirji Shah, a Comcraft Group director and former chairman of the East Africa Business Council (EABC).

Others, as *The Financial Post* found out, are as varied as the enterprises and experiences in those countries.

Rwanda

According to Sally Ibeere, the Managing Director (MD) of Skipix, an information technology and media communications company, her move into the Rwandan capital of Kigali was almost entirely a matter of fate.

A Rwandese national was staying at a Nairobi hotel when he came across Skipix products, which include electronic cards and virtual tours, and immediately decided to trace their source.

After the hotel management disclosed the origins, the businessman visited Sally and expressed interest in the products.

Three years later, 60 per cent of Skipix orders last year originate from Rwanda and the prospects, she says, are bright.

"We have invested \$30,000 (Ksh 2.1 million) in the country, employed five people and business is growing," says the entrepreneur, who started the company in 2000.

And if Rwanda has been good to Sally, then it has been better to Kenya.

Figures from the COMESA secretariat for the year ending 2006, exclusively availed to *The Financial Post*, show that Kenyan firms exported goods worth over Kshs 7.5 billion to the Central African country.

"Last year alone, we registered 13 enterprises from Kenya," says George Kayonga, the Rwandese ambassador to Kenya.

Tanzania

For industrialist Joel Maina, the MD of Kemia International and Polysynthetics East Africa Limited, a chemical and polysynthetic manufacturing firm, the move to cross the border was inevitable besides being a strategy for unexplored markets and exploiting the company's full capacity.

"Our plant was operating at a capacity of 40 per cent and our aim is to operate at above 70 per cent capacity. The regional market offers us that chance," offers Maina, a chemical specialist who, even during the interview, adorned a tie with the periodical table engraved on it.

To him, Kenyan SMEs are lucky enough to be at the hub of the regional market and he reveals that since Kemia's foray into Tanzania, the country presently constitutes 40 per cent of the company's export market.

"Arusha in Northern Tanzania is mainly our focus as it is near and thus the cost of transport is relatively low compared to other regions," he adds.

The 2006 Economic Survey puts the amount of exports to Tanzania at Ksh 19 billion in 2005, an increase of Ksh 2 billion from the Ksh 17 billion exported to the country in 2005.

And indeed, some of the factors dictating where Kenyan SMEs do their business in the region include the cost of transport, potential for the industry and investment climate of the (new) country.

Uganda

Philippe Nsanzimana, the director of the Whitestone Farm, a coffee farm and Clarkson Notcutt Insurance Broker MD, for instance, settled on Uganda as the first frontier in the attack on the regional market because of what he calls favourable policies.

"In Uganda, there was less bureaucracy and all we needed to do was meet a few legal requirements which were also fast tracked by the government," recalls Phillippe, who is also the chairman of the Kenya Rwanda Business Association.

The results on its branded cashbooks show that the MD's venture into the country, which is the largest export market for Kenya, were impressive as from 2004 Clarkson has managed to net over 200 individual and corporate clients and opened a Tanzania desk in Nairobi.

Kenya's exported goods totaling Ksh 27 billion to Uganda in 2006 compared to Ksh 1 billion the country exported to Kenya. This was, however, a drop from Ksh 42 billion Kenya exported in 2005.

"This is part of our strategic plan and from the current rate of growth, we cannot regret the investments we have made," says the naturalized Kenyan whose firm undertakes underwriting and brokerage, among other, insurance products.

However, the MD alludes that unlike Kenya, the firm has to grapple with challenges that include limited knowledge of the concept of insurance and its relevance in the industry.

Challenges

Maina of Kemia industries cites the dumping of cheaper chemicals due to overproduction in countries like Asia as a major challenge facing Kenya's bid for regional trade supremacy.

"When there is no overproduction, they do not sell at those low prices but they have already distorted the market," says Maina.

Gavin Bell, the proprietor of Kengeles franchise food outlets which last year opened up its first franchise in Southern Sudan, also says that although the country has opened up many opportunities, it is still a tough place to work in both economically and logistically.

Getting consistent supplies is a problem because everything is quite expensive, he says.

"At the same time, the market is very limited and it varies especially during Christmas when most people travel away. It is a different environment," cites the entrepreneur who however, describes the venture as a 'success.'

Heavy bureaucracies, lack of proper business systems and a requirement that an investor has to have a local partner only increases the challenges on the South. For instance, Gavin says, he had to find a Sudanese national to be able to establish the business.

"It is a requirement that before you establish your business, you must find a local partner. This is quite challenging especially when the capital required is intensive and the willing local partners cannot raise the money," says Bell.

In Rwanda, Sally of Skipix says major challenges include the lack of qualified personnel and a weak private sector leaving the economy still in the hands of the government. However, she says, the government is not marred by bureaucracy.

"If the government wants something and know you can deliver, they will call you without parting with a single cent. One day, a minister who needed our services called us after being given our number by a client. Where it exists, bureaucracy is limited," says the MD.

Incentives

Challenges notwithstanding, SMEs have also been lured by a raft of incentives being rolled out for them by the countries in the region.

Kayonga, the Rwanda ambassador, reveals that in Rwanda, apart from incentives offered in the investment code, others can be negotiated based on the amount of investment, its impact on the economy and society, among other factors.

"In sectors like tourism, there is a duty waiver on equipments to hotels and other infrastructure developments," says the Ambassador.

Tanzania also provides duty waivers for investments above \$300,000 (Ksh 21 million) and a 100 per cent capital allowance while Uganda is offering land to investors apart from allowing 100 per cent of ownership by foreigners.

That notwithstanding, Kenyan SMEs cite capital expansion as a major constraint for exploiting the opportunities, a problem that Marubu Munyaka, a financial analyst and consultant, opines can be tackled by the establishment of financial intermediaries that extend credit to companies venturing into the region.

Marubu, the Chief Executive Officer of PSM Financial Services, suggests that the country should adopt the South African model, which has intermediaries that provide credit by way of venture capital funds (equity funds) and long-term export credit lines.

These are offered by, among others, the Industrial Development Corporation (IDC), Development Bank of South Africa (DBSA), the ABSA Bank and Black Empowerment Venture Capital Funds, with sovereign risks being covered by their own specialized insurance agencies covering political and credit risks.

Marubu also roots for the government to inject capital and good corporate governance to the former ICDC so that it is able to play its rightful role in supporting the businesses, both the existing and start-ups.

It should also be re-oriented to focus its operations on the region as well so that it assists Kenyans to become major players in the regional trade and investments.

"Also, IDB could be converted into an Export Import Bank of Kenya so that it is able to attract lines of credit on attractive terms. But with a management team with relevant expertise and orientation on export development programmes financing," Marubu argues in a paper presented to the Rotary club, which also appeared in

The Financial Post recently.

Though not entirely focusing on credit provision for expansion purposes only, banks like Fina Bank, which is the only bank operating both in Kenya and Rwanda, are focusing on SMEs, says its MD Frank Griffiths, though "expansion is also being considered."

In addition, members of regional blocks like COMESA and EAC have also come up with non-tariff barriers (NTB) that are becoming an impediment to trade.

Tanzania, for instance, has been accused of imposing NTBs by introducing a \$100 (Ksh 7,000) business visa fee while Kenya's incessant roadblocks have been cited by her partners as non-tariff barriers.

Also, Kenya's regional trade partners have consistently decried the heavy trade imbalance between Kenya and the trading partners with some feeling that her companies are reaping more from the trade blocks at the expense of others.

This, offers Shah of Comcraft, can be mitigated by having policies where developed members assist the other countries to catch up so that they can also benefit from the regional market.

"This is what has made regional blocks like the European Union (EU) stand together. Everyone has to feel they are benefiting," says Shah.

While Kenya's imports from COMESA countries paled at Ksh 16 billion in 2006, exports were more than Ksh 69 billion.

Emerging markets

Maina of Kemia cites Ethiopia as the next big market if only the government would rehabilitate the Isiolo-Moyale Road to lessen the cost of transportation.

"Ethiopia has a population of 80 million people and its economy is growing by more than 10 per cent. That is a good market but transporting goods there takes ten days or more because of bad roads," laments the industrialist.

Indeed, Ethiopia's trade with Kenya rose from Ksh 2.5 billion in 2005 to Ksh 3.6 billion in 2006.

Sudan overtook Egypt as the second trading partner after Uganda with exports to the Southern part of the country clocking Ksh 10 billion in 2006 up from Ksh 6 billion in 2005, according to figures from the Ministry of Trade.

Uganda led Kenya's export market by Ksh 27 billion, Sudan Ksh 10 billion, Egypt Ksh 9.8 billion while Rwanda, which had been the third in 2005, was placed fourth with exports totaling Ksh 7.8 billion.

How much of the figures went to SMEs is hard to tell, but as many more go regional, the figure will definitely rise.

Insurance

Insurance premiums: The work of a cartel or market forces at play?

By Justus Ondari

If he were to incur physical scars from the many battles he has waged in his life, Simon Kimutai's body would be nothing but all scars. Detained as one of the Kenya Airforce officers who took part in the 1982 failed coup, Kimutai was to literally throw himself against the entire government machinery led by the uncompromising Internal Security Minister (then Transport Minister) John Michuki in 2004 when the minister introduced the so-called Michuki rules. As any good fighter, Kimutai knows when to make a tactical retreat. Therefore, when none other than President Mwai Kibaki threw his weight behind Michuki, the then chairman of the Matatu Owners Association of Kenya (MOAK) threw in the towel. A lot of water has passed under the bridge since then and, like any master strategist, Kimutai has just led his MOAK to unite with hitherto industry competitor, the Dickson Mbugua-chaired Matatu Welfare Association, to form the Public Service Vehicles (PSV) Owners Welfare Association of Kenya (POWAK) for which he deputises interim chairman Mbugua. Under POWAK, Kimutai last week was opening a new battle front, against the proscribed Mungiki sect members. But away from the public glare, the POWAK vice chairman has another 'necessary evil' he is fighting-the insurance industry.

"Insurance companies in the country are operating like a cartel by agreeing on specific premium rates across the sector in cahoots with the Commissioner of Insurance," declares Kimutai.

He argues that contrary to a free market economy, insurance companies fix the premiums instead of letting the market forces determine them, with the industry regulator-the Commissioner of Insurance-maintaining a studious silence.

"If we are in a free market economy, we claim ours is a free economy, how comes all the insurance companies in the country levy the same premiums for their different insurance products across the board?" poses Kimutai.

But the man on the spot, Sammy Makove, refutes Kimutai's allegations.

"We have no cartel in the insurance industry. Premiums are scientifically calculated based on the claims experience," explains Makove, the Commissioner of Insurance.

Indeed, there have been allegations in the market that the commissioner connives with the underwriters' lobby group, the Association of Kenya Insurers (AKI), to fix the rates. But AKI Executive Director and Chief Executive Officer (CEO) Tom Mara Gichuhi exonerates Makove and the association.

"As AKI, we do not set rates ourselves but advise our members not on what they should charge, but rather what they can charge based on the statistics we collect from both the local and outside markets," explains Gichuhi.

He adds: "Although we have a responsibility of advising our own members on the kind of premiums they should charge, we do not have the authority to penalise them for not doing so because it is a self-regulation system and they can agree or disagree."

APA Insurance CEO Ashok Shah feels Kimutai's argument is reminiscent of a sufuria claiming a cooking pot has more soot.

"The accusation is not entirely correct. We, as insurers, do pool our claims experience for certain common risks and then look at what the correct rate should be for us to write the risk economically. This is not different from the matatus charging the same fare for their routes or petrol companies charging the same rate for their products," says Ashok.

Lema Insurance Brokers Managing Director and Association of Insurance Brokers of Kenya (AIBK) chairman Leo Matundura too bails Makove out. He maintains that there are no cartels in the industry although some players have associations like AKI under whose aegis they would meet and discuss market trends "without necessarily setting premiums although they will compare notes."

"Taking into account the risk exposure using scientific formula, underwriters will always assess the risk through their various claims experience and historical perspective to come up with what is called an economic premium," says Matundura.

After getting the rates, the underwriters would then come up with terms and conditions of application. Some companies may have a better way of managing the risks than others and hence are able to absorb the risks easily. This would reduce their overhead costs thereby resulting in low premiums.

However, Makove admits that in some risks, he has been forced to wield the stick. For instance, fearing that some small underwriters may punch beyond their weight, five years ago he set up a committee of brokers, underwriters, loss adjusters and officers from his office to 'give indicative premium rates' for complex risks such as fire and engineering.

"A small insurance company may not have in-house capacity to determine the correct pricing for insuring risks like Kenya Electricity Generating Company (KenGen) and, therefore, cannot quote rates that are commensurate to such risks," he explains.

Some companies can apply these rates when filing their returns with his office but they (companies) are not bound to charge them (rates).

"That is not operating like a cartel instead we are only facilitating so that right premiums are quoted in the market."

Matundura concurs: "Major risks like fire, engineering, marine, aviation which have a global reach have nothing to do with the local market. Rather, they follow a global trend in their rates of premiums. Most of the companies locally cannot even handle them."

Under the Insurance Act, every insurance company is required to compile its own premium rates and file them with the commissioner's office at every end of November.

"They cannot alter the rates without letting us know why they are doing so," explains Makove.

While it is a free for all in other risks, Makove says motor risks also are under his close watch due to a number of reasons. First, motor insurance, particularly third party risks, is compulsory. Secondly, companies that have collapsed including the latest victim, United Insurance Limited which went under last year, have been motor underwriters.

"We have been concerned about the rating structure in motor underwriting. In our role as the public watchdog, we will not allow people to charge rates for purposes of booking premiums and then going under to leave trails of liabilities," Makove says.

He says premiums charged must be able to service claims, company expenses and commission to the agents as well as reflect a little element of profit for the company.

"If a company charges inadequate premiums, it is a recipe for disaster for that company. If we do not act; we would expose the public to cheap covers which are not guaranteed because such companies cannot settle claims when they are due."

Subsequently, Makove and the industry players, brokers and insurance companies, settled for a minimum premium rate of 4 per cent for motor risks coverage.

"The 4 per cent is the minimum and companies are charging between 7-8 per cent although strong ones are charging anything between 6-7 per cent."

AKI's Gichuhi espouses the moral aspect of the commissioner's office.

"As a legal regulator, the commissioner has a legal capacity and right to look at the rates which have been filed by an insurer. It is just like the Central Bank of Kenya (CBK) where a bank cannot just file any interest rates it feels like charging. The government has a responsibility to ensure that each and every player in the industry runs its business in a sustainable manner with or without freedom of making the choice because even where people are allowed to make choices, there must be limits. There must be some order and ethical practices within the industry," he argues.

He even defends the commissioner's direct involvement in the premium issue.

"If need be, the commissioner has a right to tell an insurer its rates are unreasonable, unsustainable and unacceptable going by history and experience of the claims so that such a company amends its rates accordingly."

Matundura adds that there are some risks which the re-insurers have a say because most of the risks are not absorbed by the insurance companies on their own.

"You may find an insurance company has taken a mere 10 per cent of a risk with 90 per cent shouldered by a re-insurer. In such claims, the re-insurer will insist on a particular rate or a minimum rate of premiums below which the insurer cannot charge," explains Matundura.

Understandably, Makove can count on the support from the industry. Coincidentally, Kimutai's namesake and former Invesco Insurance Company Limited Managing Director Simon Muhindi is in Makove's camp.

Muhindi says insurance is a special industry that cannot be left entirely to the market forces of supply and demand since any slight mistake will have far-reaching consequences including loss of life.

"If you leave it to supply and demand, crafty individuals will sell what in essence is paper to unsuspecting members of the public, pocket the money and disappear," says Muhindi.

He adds: "Even the Policy Holders Protection Fund will suffer because all companies will not accept to contribute to it if companies start going under because, say, PSV underwriters are not charging the right premiums."

Matundura chips in: "If an insurer collapses due to uneconomical rates, then obviously it shakes the public confidence in the industry in general."

The new kid on the block Directline Assurance Executive Director John Macharia also defends Makove.

"The Insurance Act gives guidelines on premiums but the forces of demand and supply largely dictate the rates. However, the rates must be acceptable to the commissioner. If not, you will be asked to revise them," says Macharia.

But if the forces of supply and demand are in play, how come we have uniform rates?

Makove explains: "Basically, the risk profile of most of our risks in the country is the same and hence most premium rates are more or less the same."

The AKI CEO concurs.

"We have not been able to vary our premiums substantially because the industry has not been able to come up with differentiated products where one player comes up with a product that is different from others or offer their products differently from other players. But it has started to take root."

"For instance, if one is looking at a matatu, we know the status of our roads, behaviour of the crew and even the number of passengers carried. Going by the history of the claims experience in, say, matatu business in the country, different insurers are likely to come up with similar rates because they are all actually looking at the same risk unless the motor policy is different from others," says Gichuhi.

Newly elected Law Society of Kenya (LSK) Chairman Okong'o Omogeni agrees with the insurers.

He goes legal: "Under the current Insurance Act, the law gives the commissioner a little bit too much discretion on the premiums to be charged by the insurers."

The learned friend says there is a reason for that: "The idea is to have the market as liberalized as possible so that forces of supply and demand can dictate it. Otherwise, if you set figures to be charged, then you make nonsense of the concept of a free and liberalized economy. That is why various regulators of different sectors of the economy try to leave everything to the discretion of the players."

But is that not fertile ground for cartel-like tendencies?

"This is a situation that is replicated virtually in the entire business world, for instance, the petroleum industry. I am not surprised because insurance companies have their own organization, AKI, and I have no doubt that, among themselves, they would be having their own deliberations on what they think would be reasonable in the market," says Omogeni of Okong'o Omogeni and Company Advocates.

But is the practise legal?

"It is not illegal. In any case, there is no law that bars them from talking to each other. The ideal situation is that we should not have players operating like cartels. But there are some loose areas in our laws they are 'legally' capitalising on," says Omogeni.

Cartel or not, the process of setting insurance premiums needs a re-examination may be, just may be, for the parties unhappy to the present system to not only get but also see justice to be done.

Entrepreneur

A self-made entrepreneur

**By Samwel Kumba
and Mwangi Maingi**

Do things happen for a reason? "Yes, yes, and yes! If I fall and break my neck, people call it an accident, because I did not do it on purpose and no one else is to blame for intentionally doing it to me. But it all happens for a reason. May be I was careless and not watching where I was going. Lesson learnt? I should be more careful."

Such was the explanation given by one Richard Kimani Rugendo, a successful business guru but a perennial political loser whose ambition, however, has not allowed him to give up in politics.

So why did Rugendo decide to venture into business?

"I might as well have been motivated by selfish ambitions. I wanted to take a more challenging job. And, incidentally, I started with printing, making me a direct competitor of my immediate former employer," Rugendo explains.

The entrepreneur who has time and again unsuccessfully contested for Nairobi's Lang'ata constituency parliamentary seat believes that sometimes things happen and people fail to know why they happen.

Rugendo went into business way back in 1971 but before he had worked with a multinational Company-Courts and Brothers East Africa Limited- as a technical and sales manager in charge of printing and printers services.

Initial Capital

With an initial loan of Ksh 3 million from National Bank of Kenya, Rugendo was in business. He established Frisi Mills International Limited, a printing business, which he operated until 1980 when he sold it to an Asian. Unfortunately, two years later, the company was taken over by the bank.

Saying that raising capital is expensive, Rugendo decries the country's two-digit interest rate which, according to him, should be below 9 per cent. But when one is working for interest rates of up to 16 or 18 per cent, he adds, the ultimate beneficiaries are the banks.

Rugendo had developed interest in exploring new frontiers after selling his first business. He started a different company -Sterling Craft (K) Limited-which manufactures badges, medals and medallions for clients including the armed forces.

Later, the ambitious Rugendo went ahead to start another company-Kevian Kenya Limited-which produces juices. Today, each of these companies is a separate entity.

For over 20 years now, he has become one of the major suppliers to local supermarket chains. Following his experience, his peers elected him the chairman of the Suppliers Association of Kenya (SAK), a registered institution that addresses issues of suppliers.

Asked what drives him, Rugendo says it is a strong will to make an effort and sheer determination.

“Anybody can be an entrepreneur since no one is born an entrepreneur. We have different talents and, therefore, we can pursue wide and varied ideas. One has to utilize what he/she is good at and capitalize on it. People have to accept that what one is best at is talent and pursue it. So, before someone tells you this is what you are good at, you already know what best suits you.”

Rugendo, whose companies have a combined work force of over 155, argues that the first step to successful investment is overcoming fear of failure. He says the country needs business role models, although he regrets that this cannot be attained until Kenyans are able to create employment.

“It is our responsibility, and not the government, to persuade our friends to venture into business. And this we cannot do if we are not role models. The government has already created an enabling environment. Unfortunately, you find that foreigners are the ones who come and find a vacuum which they then fill. Ordinarily, we should keep our eyes wide open and cash in on any available opportunity,” he explains.

Rugendo’s background has nothing to do with his success in business as his peasant parents only owned what he dubs a small piece of land.

Relocating to Nairobi, the then youthful Rugendo settled in Nairobi to embark of a torturous sojourn to academic and business excellence.

The entrepreneur-cum-politician is a Business Administration graduate from the Addis Ababa University, which was founded in 1950 as University College of Addis Ababa, renamed Haile Selassie University in 1962, before reverting to its present name in 1975. He has since gone through other trainings in various fields.

Government protection

Currently, Rugendo services the Kenyan market though he occasionally exports particularly to the East African region whenever an opportunity arises. His experience in markets in other countries makes him feel the government can achieve a lot by protecting local industries.

“Just like in other countries, the government should encourage companies to come and invest here to produce what they would have otherwise exported into Kenya. I remember I wanted to establish an export market in Nigeria but I was told that if I have such a very good juice that I would like to sell to Nigerians, I should establish a plant there and use their people to produce it,” explains Rugendo.

Though protective, the move will encourage industrial revolution.

“This way, we will be able to compete with others in the continent.”

Rugendo has another revolutionary proposal: “As a working nation, we should utilize even our buildings to the maximum by encouraging a 3-shift working programme. That way, we would end up employing more people and improve economically. Our city should operate 24 hours, seven days a week. We can do it in Nairobi as it is done in other cities.”

Economic growth

Rugendo feels the country’s economic performance is not receiving it due recognition especially from the political class.

“The leaders criticizing the economic growth should know that one does not need to lead in order to show the way. One can give suggestions and still be a leader. Telling us to wait until when they get into leadership so that they bring brilliant ideas on board is not right.”

Buoyed by the ups and downs of entrepreneurship, Rugendo is always guided by experience, discipline and honesty.

“As suppliers, half of the time businesspeople disappear with our cash. This creates not only a bad image for themselves but also for others. I look forward to the day when business colleagues will say, ‘I am going to KRA (Kenya Revenue Authority) to pay my taxes’. Kenyan businesspeople should be honest for the good of society,” opines Rugendo.

Challenges

Being involved in the business of supplies the biggest challenge that Rugendo faces is trust.

“Nobody trusts you. Doing business in Kenya is not easy and if you make it here, then you can do business anywhere else in the world,” he explains.

Other challenges include poor infrastructure, insecurity and high cost of energy.

Once a politician always a politician; and Rugendo is not about to throw in his political ambitions any time soon. But he is wise enough to mix politics with business.

“I live in a political country and so do my competitors. Politics is not a profession and one must have a profession in order to show some kind of leadership. But when one side interferes with the other, then an

individual has to know when to call it quits. If I do not make it in politics, I have to accept defeat and concentrate in business. I will try again tomorrow.”

But will he take on Lang’ata MP Raila Odinga this year?

“Politics should be taken as a game. This year, I am going to try my luck again,” vows Rugendo.

As a seasoned politician and successful entrepreneur, what has actually torpedoed his political ambitions every time he runs for the Lang’ata seat?

Rugendo is not forthcoming: “What have other politicians done right? These are noisemakers.”

Perhaps borne out of his self-made, never-say-die entrepreneurial odyssey, Rugendo is not about to declare any of his siblings *Tosha* to take over his business.

“What will my children come to do in my business? If they want a stake in my business they have to buy shares. I did not inherit the business from my parents. Why do children these days believe in inheriting or being given? Anything that is given for free is not taken seriously. That is why, I believe, many young men are not able to take care of their wives since they have not struggled to pay the bride price. So, anyone who wants to get a share of my business must show some sort of interest. I cannot just put anybody in the business in the name of inheritance,” concludes Rugendo.

Communication

The cost of internet services set to come down

By Jackson Okoth

The price of logging onto the Internet is expected to fall drastically if the industry regulator opens up this niche market of the telecommunication business to competition, *The Financial Post* reports.

This is according to findings of a study commissioned the Communications Commission of Kenya (CCK) through its consultants, NETCOM Information Systems, focusing on the Internet market.

“We are recommending an opening up of the market so that those operators who have a wider coverage on their digital networks can start providing Internet connectivity to companies and institutions out there,” said Strathmore University’s Prof Meoli Kashorda, who is one of the lead consultants of NETCOM.

He made the remarks on the sidelines of a stakeholders workshop organized by CCK to discuss the findings of the study undertaken between November 2006 and March 2007.

And the regulator is determined to implement the study findings soon.

“We are going to take about two months to study the recommendations and then begin implementing them one after the other,” CCK Director General Eng John Waweru promised.

Prof Kashorda said the cost of Internet services is still high due to a huge layer of intermediaries-e.g. Internet Service Providers (ISPs) and Public Data Network Operators (PDNOs)- between the international gateway operators and the end-user.

“Our study found out that we have a very deep hierarchical structure. We have international gateway operators who buy satellite bandwidth, expensively by international standards, at about \$2000 (Ksh 140,000) per megabyte,” said Prof Kashorda.

“By the time it reaches the end-user, the customer is paying up \$ 5000 (Ksh 350,000) per megabyte,” revealed Prof Kashorda.

On the same plane, the Internet market is also composed of dial-up or household Internet users. “This customer is also finding the fixed charges of Telkom Kenya, who charge per user, too expensive. The customer is paying for both Internet connectivity and the cost of the telephone call,” he said.

He added, “When we calculated the affordability, we found that dial-up connectivity is still expensive and beyond the reach of most people.”

The study also found out that with the entry of mobile Internet connectivity, costs were coming down in a dramatic way.

“We feel that the future is going to be snatched by the mobile Internet market and that it will dominate the sector. We are, therefore, asking the regulator to actually structure this competition among the operators,” said Professor Kashorda.

Opening up the Internet market to competition is expected to have the effect of phasing out the hierarchy to about two levels so that from the international bandwidth to the customers, perhaps only one intermediary or service provider exists.

While the world is fast moving into the digital economy, Kenya and other less developed countries are still lagging behind and playing catch up.

Prof Kashorda said: “There is still very low penetration of information and communication technology (ICT) knowledge among businesses and organizations that you want to sell to. If they are not even using computers, it is unlikely that this kind of business will buy Internet services.”

Interestingly, in the education sector, it is only higher institutions of learning who are hooked to the Internet. Primary and secondary schools are not connected and yet this is the future market.

The study also found out that past growth in the Internet market had been affected by the monopoly and exclusivity of the Internet backbone provider. The scenario has since, however, changed although at a gradual pace.

The team of consultants also found some interesting statistics. Over 90 per cent of all Internet users in the country are concentrated in Nairobi and Mombasa with Nairobi alone accounting for 80 per cent.

"Part of the reason is that penetration of the backbone Internet infrastructure is not deep and has not spread into the rural areas. There is lack of infrastructure and active businesses in other parts of the country," said Prof Kashorda.

He added that there is a correlation between the nature of economic activities in Nairobi and the focus of the Internet Service Providers (ISPs) within the city.

The team recommended that the regulator should license all large operators including mobile phone companies to provide Internet access and switching services.

"Now we have mobile operators covering the entire country. If we allow them to provide access, then it is quite easy for an ISP to operate in a rural town. At the moment, they are not offering that. What the ISPs are offering is dial-up and not leased-line services, which are most needed by organizations."

The Internet market has been changing gradually over time. From dial-up hassles of yesteryears, a user can now download a digital picture, open up a power-point presentation or surf the web at lightning speeds.

Many organizations and individual home users are now upgrading to high speed broadband Internet access, a connection that allows several people to use the Internet at the same time. All you need to do is put the computers on a network. Wireless networks are also becoming more and more popular.

But the cost and penetration of Internet services remain a concern, despite the availability of the latest technology in the country.

According to Prof Timothy M. Waema, his team has already made recommendations on how to increase the number of Internet subscribers in the country. The salient recommendations of the report, however, remain confidential. Further, data collected on industry players in the market forms the data base of CCK and, therefore, property of the regulator.

Prof Waema of the School of Computing and Informatics, University of Nairobi, said: "We have also found out from the study that the amount of international bandwidth that the country is buying out there is also very small. Although it has been growing, it still remains small. Currently, the total bandwidth is about 700 megabytes per second."

The study found out that with over 3 million Internet subscribers, a lot of bandwidth coming down i.e. people requesting for information from outside the country, is much higher (about seven times) than the bandwidth that is going up.

"This is a bad indicator and shows the lack of local content for people to visit local websites," says Prof Waema.

"We have made recommendations on how to reduce the bandwidth going down," he adds.

For a long time, whenever one sent an e-mail from one institution to another, e.g. Kenya College of Communication Technology (KCCT) Mbagathi to Kenya Wildlife Services (KWS), which are just separated by a road, it used to go to Europe or the United States and then back, which was very expensive.

Presently, there is the Kenya Internet exchange point, which is the point for exchanging local traffic. This peering bandwidth for local traffic has been growing although this is still insignificant compared to the bandwidth coming down. That ratio is still too high. 44 times less, the bandwidth at home here than the bandwidth that is coming down.

"We want it to come to the 1:1 ratio. The local bandwidth should be even higher. This is the trend globally, so that a lot of traffic is retained locally. We have made several strategies to increase that local traffic," said Prof Waema.

While CCK has kept a tight lid on the findings made by its consultants on individual operators, among the key NETCOM recommendations is a requirement that all operators and service providers publish their tariffs for fair competition.

Thus, the Internet market is a segment to watch over the next few months as the industry regulator acts on the intelligence and data gathered through the study.

Eng Waweru said, "The study report will be posted on the CCK website. The low penetration and dispersion of the Internet poses a major threat to the realization of the Millennium Development Goals (MDGs) and the mounting of e-health, e-education and other e-government programmes and applications.

The low uptake of the Internet also poses the risk of Kenya lagging behind in reaping the benefits associated with integration to the fast-evolving digital economy."