Kenya’s queen of manufacturing

Flora Mutahi tells of how she set up her company with virtually no money

By **Samwel Kumba** and **Mary Maina**


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During her formative years, Flora Mutahi curved for herself a niche as a youngster with keen powers of observation, restless curiosity, ability to identify issues that others would miss and a knack to generate innovative ideas. She was simply creative.

And she has not disappointed in her productive years.

One day in 1995, Flora went for a bite at a city eatery. She was to discover what is not known by many Kenyans even today. She realized that the salt was not easily flowing out of the salt dish since salt absorbs water from the air (hygroscopic). It was a goldmine in waiting!

She swung into action. Having hardly worked for a year and still pursuing her Certified Public Accountant (CPA) course, Flora resigned from her first job in an audit firm. After three months, she set up a company- Melvin Marsh International- to help her manufacture a ‘better’ salt. It was a gamble because she lacked the capital to start the project.

“I was very young then with no commitment at all. So resigning for me was no big deal. Even worse I had no savings. Not even a shilling. But I am glad I did it then. This is because the struggle that I had to go through and the sacrifices I made were because I had no responsibilities. But I was young and as a youngster then, I really took crazy risks,” admits Flora.

Fortunately, at the time, the United States Agency for International Development (USAID) was giving out capital on one condition: One had to deposit half the money required.

The then budding entrepreneur approached a friend to deposit some money with the agency and borrowed double the amount in the friend’s name. However, the amount borrowed was so meagre that she feels embarrassed to give the exact figure.

“Oh. It was a very small amount that when I look back, I actually cannot believe the risks I was taking,” Flora explains as she laughs.

With a single employee, and using a rented room without the knowledge of the landlord, they would produce the wonder salt- Melvins free flow salt- in the morning and close the office-cum-factory in the afternoon to make deliveries.

But one day, her ‘unconventional’ entrepreneurial escapades nearly cost Flora a big deal when a hotel asked her to deliver 100 dozens of salt dishes.

“I was about to tell them that was not possible but then decided to give it a try,” explains the entrepreneur who went on to service the order by going for a ‘soft’ loan from another friend.

Although they were apprehensive, Flora’s parents including her late father, Wahome, were very supportive but not financially.

“Although I could not see it then, by not extending monetary support to me, my parents actually let me to find my way around. It was a good approach as it made me learn a lot of things,” relives the entrepreneur who currently has 38 employees on her payroll.

After a year of hard work, it dawned on the now streetwise Flora that she could not make it on salt alone. She switched to what was to propel her to both national and international fame-flavoured tea. Even the tea was another ‘need-driven’ invention. A fan of Tangawizi (ginger), she could only frequent joints where Masala was available to add to her tea.

"It struck me that, if someone came up with a Tangawizi-flavoured tea, he/she would make a kill. I had to do it," she says with an element of excitement in her voice.
In 1998, Flora, who is married to architect Mutahi Wareithi, hit the market with flavoured tea christened Safari and Masala.
But how does she generate business ideas?
Flora says a determination to have a competitive advantage and customer satisfaction in the market has been her guiding light.
"My worry always is, what do I do to attract the next customer? What extra could I offer the client? How can I can I satisfy a certain market's need? For instance, because of my love for ginger in my tea, I discovered the product was missing in the market."
Flora, who cites her mother-an entrepreneur in her own right having run a secretarial bureau before establishing a water bottling company, Aberdare's Water- as her mentor, has grown her businesses on frugality and risk taking.
"Believe it or not, I could bounce up to five cheques a day. My bank managers and suppliers would threaten me with dire consequences but I could re-negotiate my way out. Thank God there were no penalties for bouncing cheques back then. I have grown this company on profits," volunteers Flora.
As one of the country's largest blender, packer and distributor of flavoured teas, early this year Flora decided to come up with plain tea, Melvins Pure Kenya Tea, in a bid to cater for both local and foreign plain tea consumers.
Operating in a sector dominated by multinationals, Flora has developed a streak of only incurring expenses based on for priority.
"I have always avoided the world of the conventional businessperson. For example, at one time I had to choose between buying packaging material and registering my product's trade mark. The former was more urgent and went for it. But I later registered the trade mark,"explains the alumnus of Loreto Msongari, Kianda and Greenstead high schools who earned her Bachelor's degree from the United Kingdom.

Challenges
Talk of challenges and the glow on Flora's face suddenly disappears. As the old adage goes, it is the wearer who knows where the shoe pinches and the mother of two cites insecurity as one of the greatest challenges facing the business community.
Located in the seedy Industrial Area of Nairobi, a group of hoodlums hit her firm in the dead of the night in 2000 wiping her store clean of all the stock she had. But she has been able pick and dust herself up again.
"Whatever they did only forced us to spend more in servicing our customers but never affected the brand," says Flora with a steely voice.
However, she has been forced to beef up her security system by installing CCTVs and hiring security guards using resources she could have otherwise invested in the business.
"If the security situation were better than it is today, many businesspeople including ourselves would use the money spent on security to expand operations thereby creating more jobs, thereby contributing to economic growth," explains Flora.
Having had to survive on a shoestring budget ten years ago, a period she describes as a nightmare, Flora argues that access to finance is not a major challenge so long as one has a good business idea.
"I always tell my friends that if I was opening my business today, it would take me less than the 11 years it has taken me to be where I am today," she says adding, "Nowadays, financial institutions including banks are literally running after clients to give them huge unsecured loans."
Flora takes issue with the government for its failure to support small and medium entreprises (SMEs) arguing that even product and market information in Kenya has to be paid for to be obtained from research firms.
"In some first world countries, I would not have invested in machinery," she says.
She explains: "Instead, I would simply partner with a manufacturer who would produce what I want. My work would just be financing and marketing of the product. But I know, as a country, our economy is getting sophisticated with time."
Management is a major challenge but Flora feels one can get over it through learning.
"As a CEO, I am forced to learn several other skills like human resource, sales and marketing and customer relations," says the entrepreneur who can render herself broke through her hobby-travelling and meeting new people.
However, she sees her ability to take off to new places in a minute's notice as the epitome of her business model coming of age.
"I can leave without affecting the business because I have the right management in place. For instance, I took two months off last year and the company continued running," Flora reveals.
Flora nurses no regrets for venturing into business.
"If I were to rewind the time, I could not have done anything else. I totally enjoy what I am doing. My only regret is that the business is not moving as fast as I would like it to," she sanguinely poses.

And she has big dreams.
“We want to actualise our inception dream-going worldwide. I was looking at a big basket of goods within 10 years. We are now in our 11th year. We have the salt, tea and rice and we are going for other products. The herbal range is growing so there are more teas to produce. We would like to build a world class company with several strong Melvin brands.”
Flora’s prowess has been noted by society. For instance, she was Eve Woman of the Year, entrepreneur category, in 2005. She has also been nominated for various awards in other African countries like Ghana to which, however, she has not followed through. But despite all her achievements, Flora has chosen to keep a low profile. Why?
“It is good they recognise me but I just love what I do. I need not shout about it,” Flora, the Melvin’s tea manufacturer, concludes.

Start-ups: What it takes to succeed

Having been there and done that, Flora Mutahi has a word for start-ups. “One has to learn to live within the available resources. If you allow yourself to get carried away, you will not make it. Learn to avoid discouragements. Otherwise, if everything you are told is to be believed, then you will give up even before you start.”
As she was finding her way around in the business world, many people were advising her that without a big marketing budget, she could not succeed since the industry was packed with ‘big’ boys, including multinationals. It was the kind of advice she took with a pinch of salt.
According to her, start-ups should differentiate between capital and profit.
“This is the root cause of many business failures in that immediately one gets a big cheque; the first thing they think about is a car. With the kind of publicity it is generating presently, many would go for a Hummer,” she says with a chuckle.
She calls for vision and passion in business but abhors the ‘me too’ start-up mentality where one ventures into a certain type of business just because a neighbour, friend, relative or any other person has made in it.
“Before venturing into any business it is imperative that one must carry out a thorough research to ascertain its viability,” she cautions while adding, “But this must be complimented by learning how similar businesses are run by consulting experts, established entrepreneurs by, say, having a mentor and reading widely.”
At the end of the day, Flora offers that entrepreneurs should court their consumers through quality products and service delivery.

LAND

Land: Stakeholders speak

*In a bid to get to the bottom of the challenges faced by players in dealing with land, our writers **Samwel Kumba** and **Justus Ondari** spoke to a number of players. Here are excerpts.*

Makathimo says: “There are a lot of legal problems in dealing with land especially because of the number of statues involved. Different pieces of land are registered under different laws, which often confuse the average Kenyan.
There is land that is registered under the Registrar of Titles Act, Sectional Property Act, Registrar of Documents Act and Government Lands Act.
A layman can go to the lands office and fail to identify under which Act his piece of land is registered. That makes the layman to hire a professional who understands the various statutes to sort our land issues which makes it an expensive affair.
Secondly, the process of registering land cannot be tracked and, therefore, time taken is not predictable. This creates room for manipulation and corruption.
There seems, not to be in place, a proper planning procedure on how the registration should be done. One has to seek clearance in a number of government organs, delaying the entire process even further.
For example, one has to clear with a local authority, which has equally lengthy procedures, before moving to the Ministry of Lands where there is a total mess especially in record-keeping. We have previously proposed in vain that all these activities be consolidated under one roof.
Thirdly, the government’s filing system is not computerized. It is, therefore, inefficient. It is only in a computerized system where there can be a backup of the data, which currently is absent. The manual filing system has made the registration process bureaucratic. The process can be standardized just like KRA had done.

The beginning, however, ought to be the revision of the policies in place. We feel that the government should facilitate an all-inclusive discussion for a National Land Policy. And the basic way forward is to set the base from where the laws can be reviewed. Parliament is the right place to seek out the issues. The first step is also to root out all people involved in malpractices. However, every time we have made such proposals, there has been resistance. Changes always bring fear. Some officers may fear retrenchment.

But if the government becomes determined, the process will be easily implemented. This calls for a substantive and not acting Minister for Lands to guide the process. Whereas we have nothing against the acting Lands Minster (Prof Kivutha Kibwana), it is our considered opinion that a full minister can make decisions that can bind. As you are aware, even a chief executive officer (CEO) of a company in an acting capacity can only handle issues to a certain level. Otherwise, for assertiveness, somebody in an acting capacity cannot decisively make decisions.

The Ministry of Land is a core ministry which does not need to be run with such uncertainties. We need a proper policy agenda and not one driven by temporary decisions."

David Masika, Managing Director, Lloyd Masika

Masika says: "There is too much delay in the registration of land titles and subtitles. For us, time is of essence. As a businessman, I must be able to finalize a transaction over a reasonable timeframe and use the money thereof to invest elsewhere.

However, what leads to the delay of late is what I cannot tell. I can only guess that the ministry (of Lands) is may be overwhelmed by the current manual filing system. Not long ago, we used to get transfers finalized within 45 days but currently, some cases take over three months.

I think that computerizing the filing system is one way of solving the delays. That way, even if someone in Nairobi wants to transact on a property which is registered in another part of the country, say, Kitale, he/she does not need to travel there as is the case currently. It can be done from Nairobi if the system is fully automated.

But as it is, property registered in, say, Mombasa has to be transacted in Mombasa and that makes our work even more costly.

But it is my considered opinion that if the filing system is fully automated, the issues of files missing or taking ages to trace because of the large number of files stored will be a thing of the past. All these are management issues which can be addressed by the relevant authorities.

However, it is good that the government has indicated its interest in reforming land issues by coming up with the draft National Land Policy published last week. At least, we have an opportunity to say what we think should be done to benefit all the stakeholders by critiquing the draft policy.Nonetheless, on how much the stakeholders have been consulted in the process of coming up with the policy is another issue altogether which we will know when we will be contributing on the same. Apparently, there are some groups which feel that they have not been consulted.

On the other hand, the fact that several government agents have to approve, say, a plan to develop a property, only makes the process lengthy. For instance, for a development project involving a property to be implemented in the city, the developer has to submit the plans to the city council, National Environment Management Authority (NEMA) and the ministry both of which require fees and have their own lengthy procedures.

Unfortunately, it is not in the interest of the investor to wait for the lengthy time taken by these institutions despite the relevance of their approvals. Investors are people who want to be told if they can invest or not and often have alternatives. Though we cannot blame these institutions because each has something it is looking for, the question is how can we work together to shorten the procedure.

I still maintain that land reforms must be done as transparent as possible. Otherwise, if people feel cheated, then there will be despondency and whatever policy is derived from such a process can hardly receive the necessary support."

John Kibuchi, Advocate, Kibuchi and Company Advocates and governor, Conveyance Committee

The lawyer says: "We have always had issues with both the registration and the general administrative policies as far as land is concerned. First, the number of statutes under which land is registered is far too many. Currently, there are about 25 statutes, all dealing with land law.

In looking at a review, one of the things that have in the past been prioritized is the need to consolidate land law in Kenya into one or two statues. Then, when one wants to look at the land law of the country, it will all be available on this one statute or two.

The other challenge that concerns us just as does the other stakeholders, like the surveyors and city agents, is operations of the land registries, where eventually all land is registered in terms of titles, mortgages, leases, among others. The operations in these registries are in a total mess.
The main registry is in Nairobi with another one in Mombasa. There are also registries in all the districts of the republic, which are supposed to be administered from the main registry in Nairobi by the chief land registrar.
The system in these registries is neither coordinated nor properly organized and there are always undue delays on the whole registration process. This greatly hinders people who are interested in land transactions from moving forward at a reasonable speed.
For example, if somebody is supposed to buy a piece of land and wants to borrow money from a bank, meaning that he is supposed to register a transfer and a mortgage, the money which the bank would lend would not be released for use in the transaction until the documents are registered.
Such an investor needs government consent on land rent clearances through the Commissioner of Lands while the local authorities have to clear the property from site value tax-rates.
That is where the hassles start and it could take up to three months , processing the clearance alone. Again, after getting the clearance documents, it can as well take another, say, two months to conclude a transaction. This means, a transaction that should basically take about six weeks to clear, ends up taking a whooping six months. All the time taken before the transaction is complete, a buyer cannot possess the land, the bank cannot lend money because its security is not in place and the seller cannot use the money for the intended purpose.
We recently did an audit of the registry across the country to find out the problems facing stakeholders. We established that the registries have no set targets on how long a document should take after being launched before clearance. Similarly, the land rents records are still not tabulated.
In fact, we realized that the government cannot rely on its own land rent records. Often times, they would ask you to get receipts of rent paid because they are not even sure of those who have paid and those who have not. However, it will hardly take a month to update and keep the records straight, according to the survey we conducted. Due to the lack of a system, there is a backlog of the registration cases. This makes some people to go ahead and try to jump the queue thus holding others even further back. Thus corruption is instigated.

Reforms

We have been in touch with the Commissioner of Lands and occasionally the Permanent Secretary but we have not seen much improvement. This has stretched on for more than 15 years now. Whenever we have meetings we have always raised the same issues.
Due to non-execution of these proposals, we came up with the way forward. We suggested that these responsibilities be removed from the ministry and the government establishes a parastatal similar to what they have done to the collection of revenue-Kenya Revenue Authority (KRA)-for faster implementation.
We argued that if such a separate institution is solely charged with the responsibility of registering land, then it will be much faster and it will ensure that the sanctity of the title is maintained. The ministry can come up with the policies and other logistics.
Of course, these proposals were earlier opposed by the then Minister for Lands, currently in the Finance docket, Amos Kimunya. The ministry then felt that we were taking away their core business and they would be left with nothing. We had suggested that there be a National Land Commission which would deal with issuance of titles and general administration of land.
It was our considered opinion that these measures won’t be a problem because the ministry will still oversee the operations of the individual institutions. Well, the ministry could be leaner in terms of the number of staff, but that could be sufficient in line with its new mandate.

Loss of documents

Another big headache in the current system, even for the ministry itself, is the loss of documents, particularly in the district registry. This is done with an intention of hiding some information. Maybe, the documents could be having a mortgage behind them or some money has not been cleared somewhere and the property has been attached. Once this happens, even if, say, a bank wanted to attach the property, it will not be able to sell it to recover its money. Of course, the whole filing can be reconstituted, but it will take a long time because one has to prove its former existence by producing adequate evidence.
As a way forward, we have proposed that the registry computerize all the registration and filing process. This will ensure that all the records are in the system and tampering with them will be difficult for there can be a backup somewhere. Over time, just like it happens in other countries, one would be able to access the records even from the comfort of the office and even transact online.
This will solve the problem of documents tearing off with age and some becoming unreadable. Similarly, people cannot forge the documents for somebody’s piece of property.

If the registry caught up fire today, every land record will go up in flames and there will be total chaos in this country. There is no copy outside the main registry.

Commissioner of Lands

Personally, I have been working on land issues for the last 35 years. My first years of practice from about 1970 to 1980, things were moving well.

We could actually submit our documents for registration and collect them after seven days. Every firm had a pigeon hole from where to collect the processed documents. There were a few registrars, though, and there were not as many transactions.

Since about the mid to the late 1980s, things started getting out of hand. There were delays and people had to make follow-ups. We have since decided to meet the people concerned regularly and we had agreed to meet at least quarterly.

Sometimes the ministry officials are not happy to meet us all the time because, I think, out of frustrations that they have nothing new

Reginald Okumu, Director Ark Consultants Limited and immediate past chairman, Institution of Surveyors of Kenya

Okumu offers: “Different players in the real estate market including developers, buyers, professional property managers, financiers as well as lawyers, face different challenges on lands registration.

Generally, however, the biggest challenge we face as a country concerning land is the archaic laws, which we inherited from the colonial government and were aimed at stopping Africans from accessing land especially in urban centres.

Because of these laws, the institutions that have been formed thereof are equally very inadequate to address land problems.

Records

Our record system in this country is in a total mess. Try getting information on any piece of land from any registry and you will be shocked. First, the records are not straight, not up to date and have such issues as double and even triple allocation.

Very little of our land is titled meaning that it cannot be transacted upon. Most of what is titled is in the urban areas. This means anyone who wants to develop the untitled piece of land cannot use that land as collateral.

Transactions involving land take far too long to conclude. At some point, it used to take six months. But of late, it can take even a year.

In the beginning, immediately after independence, it might have been easy to run a manual system. But today, we are talking about 3 million files. Computerization is a must.

If the records are not right, there is nothing else that can go right. So the first thing is to straighten records. Then issues such as people being told to pay land rates for properties they ceased to own 20 years will come to an end.

I know there is a lot being done only that things are not yet there. There is even automation process that has already been initiated but I cannot tell how far it has gone.

Corruption

The Ministry of Lands recently dismissed some of its officials on corruption allegations, an indication that corruption has been rife in the ministry. There is a commitment to weed out corruption. But as to whether it is working or not, it is another matter.

But this is because the process provided conduits for corruption. For instance, in the past a transfer property could be registered without evaluation. This provided room for under declaration or people who wanted to evade stamp duty. But today, before a transfer is done evaluation has to be done. So the procedures are being streamlined.

Way forward

Automation is unavoidable. This will not only make things faster but also secure the information as well reducing bureaucracy. It also saves space. The first step is for the government to come up with major legal reforms.

We need an all inclusive National Land Policy which is currently in draft form, enacted into law. We are dealing with a Sessional paper that was developed in 1968. But times have really changed and we need a new policy so stakeholders should move in haste and discuss this draft.

The policy framework is supreme for it will also govern even the drafting of our laws and addressing a number of political issues that we face as a country. For instance, there are historical injustices that are yet to be addressed. There are very many people who were removed from properties and became squatters.

The squatter problem in the Coast, the problems in Meru, Rift Valley and currently in Mt Elgon, is due to lack of a proper land policy. Therefore, we have to agree, as a nation, how we want to hold and treat land."

Death of land searches and corruption?

Bored for what has become a ritual, a clerk is methodically making his way through a heap of crumbled files containing land documents from across the country piled in a room as if in a daze. He ravages through the files trying to trace one needed by his boss. For, in what is known as a search, a member of the public has paid a small fee to be allowed to go through the documents contained in the said file to find out the status of a certain piece of land. After a 30-minute search, the clerk finds the literally mutilated file with many of its documents apparently missing. Cursing silently, he retraces his steps back to handover the file to his boss, dreading the prospect of repeating the exercise as another member of the public may have come by now for another file.

In what is going to 'set free' hundreds of Ministry of Lands officials from the torturous and corruption-inducing land searches, the ministry has instituted stringent measures aimed at baring members of the public from the searches.

This follows the realization that some members of the public are using the document searches as a smokescreen to pinch out certain documents resulting in their disappearance from official records, sometimes in cahoots with ministry officials.

Presently, anybody interested in a search has to apply and wait for the ministry officials to make a copy of the documents for their inspection. That means, if one wants to look at, say, ten files, photocopies of all their documents have to be made. The same applies if somebody else wanted to look at the same documents the next day.

The photocopying of the documents again and again makes the whole process tedious besides exposing them (documents) to the risk of wear and tear.

Also, under the current arrangement, a file containing documents of transactions- transfer, mortgage and lease among other things-stretching back, say, 50 years has to be photocopied for the client. Such a file is huge and makes the exercise costly.

The whole process literally hits a rock if the file is a continuation of another file (title) due to land subdivision. And sometimes documents have been forged to beat the rigorous official process.

Coincidentally, the new measures are not very new in the sense that a similar programme was instituted in October 2005 when the government suspended the documents inspection process due to rampant cases offorgery and fraud.

An initiative aimed at computerizing the land registry-The National Spatial Date Infrastructure Project-launched back then is still at its infancy, two years down the line.

Understandably, due to its lengthy course, the process has been cited as the citadel of corruption cases. This is because there are people who want their work done faster, thereby inducing officers through corruption.

And since records are prepared and kept manually under archaic laws, the process becomes fertile for extortion.

But what is holding back the reforms, including computerization of the land registry?

Certainly, many stakeholders are baffled at the slow pace of implementing the reforms.

John Kibuchi, a long time conveyance lawyer, says the process that ideally can take as little as six months has dragged on for three years now.

"For three years now the ministry has simply been procrastinating on the process. Officials have previously mentioned (it will take) five years, but we wonder, why five years? This is something that can easily take six months," explains Kibuchi.

Certainly, money is not a problem because donors have generously chipped in. For instance, they have even sponsored the development of the draft National Land Policy, which was released to the public last week.

There is a feeling that someone may be holding back the process for fear of losing out an avenue for kickbacks as computerization would make the records more reliable, faster and secure. For example, since land rent processing was moved to the Kenya Revenue Authority (KRA), the system has become faster and efficient.

It has been argued that if, for instance, the ministry was to delegate the issuance of statutory land clearances to KRA-with its up-to-date record keeping-the process will be faster, indeed, a one day transaction because KRA's systems are computerized.

Reginald Okumu, the director of Ark Consultants, is equally perturbed as to why one would oppose computerization.

He observes: "My guess of what is the barrier for implementing the reforms is that there are some records which are not so clean, or the people who are currently engaged in the whole process are beneficiaries of those who want to hasten the process by paying some money, or some people fear losing their jobs. Otherwise, why would I not want my office process to be faster?"

Government's role in streamlining the policy

The government's long-term strategy on land has been to ensure that all land is planned, surveyed, adjudicated and registered with a view to issuing individual titles. By 31 December 1992, 2 127 968 titles had been issued under the Registered Lands Acts, 90 per cent of which were issued in medium and high potential areas according to the Development Plan, 1994-96.

The land consolidation programme, initiated in 1956 and aimed at gathering land fragments into sizeable and shapely plots, has been completed only in Central Province. Other districts where this was to be done include Baringo, Meru and Taita Taveta while in some districts its implementation has been prevented by customary practices in those areas.

Research undertaken in countries where such a programme has succeeded, for example Japan, the Republic of Korea and Taiwan Province of China, indicate that a suspension of the normal political process, either by direct intervention by an external political or military power or by a strong monarch or military ruler, as in Iran and Peru, or by a socialist revolution like in Venezuela or the explosion of peasant unrest threatening the political and social order, as in Bolivia and Mexico (Cummings, 1978) - was necessary for it to be fully implemented.

The land adjudication programme has been ongoing in Nyanza, Western, Rift Valley, Eastern, North Eastern and Coast Provinces. Records show that by 1991, 6, 885 329 ha of land, comprising 1,318 988 parcels, had been subdivided, adjudicated and registered nationwide. During the 1994-96 plan period, some 9, 719, 621 ha had been registered.

Other major land reforms undertaken by the government after political independence in 1963 were the land transfer and settlement schemes. The most popular programme was the Million-Acre settlement scheme introduced in 1961 by the colonial government and continued by the independent government.

The land policies have ignored the issue of the recent high population increase in certain tribal areas, for example Kikuyu, Luhya and Luo regions. They have continued to preserve the old ethnic boundaries and social units and have therefore given rise to a skewed population distribution, with some areas experiencing population density as high as 380 people/km2 while in some it is as low as 15 people/km2 (Development Plan, 1989-93).

There is fear that land consolidation is unlikely to be permanent. In other instances, siblings without off-farm incomes insist on subdividing their father's land, officially or unofficially, to obtain a portion to farm so that they can feed their families.

Land ownership and use have been complicated by numerous pieces of legislation and complex procedures relating to subdivisions and registrations.

Accessibility: Achilles heel for Lands officials

After the field research, *The Financial Post* hit a brick wall in seeking the views of the Ministry of Land's officials on issues raised by stakeholders. For over two weeks, we unsuccessfully sought an appointment with either the Permanent Secretary Kombo Mwero or Commissioner for Lands Judith Okungu.

Although Okungu was categorical that she could talk to us, the ministry's Public Relations Officer (PRO) informed us that the Commissioner said she will only talk to us if she got permission from the PS.

On his part, the PS could not talk to us as his secretary informed us that for the two weeks, the PS was moving from one meeting to the other including over lunch hours. Even after forwarding questions to the PS through the PRO, we could not get answers from him.

Perhaps without a substantive minister, the PS is weighed down by the work load.

For the Ministry's critics, the results of the government's performance contract evaluation for the various ministries released late last year which showed the ministry (of Lands) ranked among the last ten ministries that did not perform well, vindicates them.

But we, however, established that the ministry has stepped up the war on graft as evidenced by the suspension of five senior officers over alleged irregular actions.

Disciplinary proceedings were commenced against the five who include Cyrus Wambugu Ngatia who was the Chief Land Registrar. He was subsequently replaced by Teresia Mburu.

"We would wish to assure the public that the war on graft and abuse of office in this Ministry has been stepped up… All the ministry staff have been cautioned against engaging in or promoting irregular deals fuelled by brokers or officers who were suspended or dismissed from the ministry on account of gross misconducts related to their professional discourse," Mwero is in record as having stated.

Macadamia: Farmers' new golden goose?

By **Mwangi Maingi**

Moses Kibugi, a well-known coffee farmer, has for a long time cherished his coffee trees. But not anymore. Instead, this small-scale grower from Central Kenya says the trees are causing him more trouble than they are worth. To mitigate his suffering, he decided to move into growing of macadamia nuts.

Kibugi, who began growing macadamia nuts in 1997 and now owns over 300 trees, says he has worked tirelessly for the last ten years while watching the vibrant macadamia sector picking up, with particularly devastating consequences for small-scale coffee growers.

"Currently, the 300 macadamia trees give me more than Ksh 50,000 (US$ 714 dollars). This figures increase depending on the kind of marketing agent one deals with," he told *The Financial Post*.

Kibugi is one of the many farmers who have decided to venture into macadamia nuts farming as an alternative source of income.

Macadamia nuts, originally from Australia as a wild nut, has opened up a new frontier for cash-strapped farmers, who have seen their earnings from their hitherto sources of income decline over the past few years.

For instance, low international prices and poor management has over the years affected the coffee and tea sectors, driving most farmers engaged in other sectors to move to the macadamia crop.

The macadamia nut tree was introduced in Kenya around 1944. Its widespread planting did not start until twenty-five years later when Kenyan authorities got sensitized on its suitability, integration and commercial potential.

However, the infant macadamia industry still lacks processing factories and adequate regulations, factors that present daunting challenges to farmers.

Yoshiuki Sato, the managing director (MD) of Kenya Nut Company, urges the private sector to increase its participation and investment in the macadamia nut industry.

Among the measures proposed include establishment of nurseries and plantations, distribution of seedlings to farmers and purchase of in-shell nuts from farmers. There is also need to enhance processing and marketing of the Kernels both in the local and international markets.

Kenya Nut Company Limited (KNC), formed in 1974, was appointed by the government to spearhead and invest in the development of the macadamia nut industry in the country. The company now purchases all the in-shell nuts from growers, process and markets the kernels both locally and on the world market.

On the progress of the nut crop project, KNC boss says the crop has for years failed to gain the popularity it deserves because of its low price, a situation largely blamed on price distortions. However, the growing importance of the crop on the international market has changed the situation for the better.

This has been helped by a change in the eating habits of the rich in the Western world, who now prefer substituting animal proteins with plant protein. The shift in dietary habits has, therefore, helped push up prices and demand for the macadamia on the lucrative overseas market.

So far, KNC serves more than 100,000 small-scale farmers, who deliver large quantities of the crop to the company, besides harvesting its own nuts from their farms.

It also maintains over 700 collection points throughout Kenya and provides a mobile collection service in remote highland regions.

Ten years down the line, the emergence of new players, key among them Equatorial Nut Processors and Farm Nut Limited, have radically changed the business landscape of the crop, with farmers who had earlier abandoned the crop slowly returning.

Efforts to obtain comments from Farm Nut Limited were unsuccessful.

An official from Equatorial Nut Processors says the firm has been keen on reducing wastage in the nut business.

"We realized demand for nuts was growing in the West and the only company that was then operating could not fully cope, thus creating a lot of waste," says the official.

Macadamia nuts may not be Kenya's top foreign exchange earner but it ranks in the same league with tourism, tea, coffee and horticulture.

Kenya has been rated the world's fifth largest producer of macadamia nuts (after Australia, America, South Africa and Guatemala), with a turnover of an estimated Ksh 2.3 billion annually. The key export markets include Asia, Australia, the European Union and United States.

But how has the crop caught up with the other top earners in the agricultural sector?

According to industry insiders, the nut crop has made the stride due to the fact that it is less demanding to grow. For instance, a seedling takes up to five years to grow and little care is needed once it is fully grown.

Apart from providing shambas with a good shade, especially during sunny seasons, conservative estimates put the production of a single tree between 50 kg and 100 kg in a season.

And unlike the past when macadamia nuts were marketed in nut form, new incentives given by the government has made it necessary for industry players to export partly processed crop.

According to the Kenya Agricultural Research Institute (KARI), the crop's improved turnover in Kenya has been sustained through the development of high yielding varieties, developed through research.
Paul Kiuru, a research officer in charge of Macadamia at KARI, says, courtesy of the recently developed top-of-the-range varieties of the crop, Kenya's macadamia industry promises to maintain a competitive market position in the future.
"Our newly developed varieties such as Kiambu 3, Embu1, Kirinyaga15 and Murang'a'20 are doing quite well and have all proved fruitful in most regions, including where coffee and tea thrives," Kiuru says.
Initially, the crop had been associated with Central Kenya. But research has been conducted to enable macadamia to roll out to parts of Rift Valley, Nyanza and Western provinces, he notes, adding that trials have been done in Trans-Nzoia, Kitale and Bungoma.
"This has made our products more reputable in foreign markets and helped increase demand for local macadamia," explains Kiuru.
Although the industry has been hit by frequent droughts and price fluctuations varying between Ksh 30 and Ksh 120, macadamia from Kenya has remained resilient, retaining its global competitiveness, hence its high ranking in the global market.

Facts on macadamia nuts

The nuts of *Macademia integrifolia* come from an evergreen tree native to the rain forests of Southeastern Queensland and the *Macademia tetraphylla* come from the rain forests of New South Wales.
A royal botanist at Melbourne and Walter Hill, Director of the Botany Garden at Brisbane, were botanizing in the forest along the Pine River in the Moreton Bay district of Queensland. They discovered a species of tree they did not recognize and named it Macadamia in honour of John Macadam, MD and Secretary of the Philosophical Institute of Victoria.
Macadamias nuts are characterized by their crisp texture, delicate flavour, versatility of use and long shelf life.
Macadamias are also good for health. Medical research has shown that the consumption of macadamias may significantly lower the risk of heart disease. So, replacing some of your saturated fat intake with the mono-unsaturated macadamias could help protect one's heart.
ÆNatural oil 75.0 % ÆProtein 9.0 % ÆCarbohydrate 9.3 %
ÆMoisture 1.5 %
ÆMineral
ÆMatter 1.6 %
ÆFibre 2.0 %
The kernel contains Vitamins Al, BI, B2, Niacin and essential elements such as Calcium, Iron, Phosphorus, Magnesium and Potassium.

End of speculators?

By **Jackson Okoth**
With market fundamentals remaining favourable, the Nairobi Stock Exchange (NSE) is once again bubbling with activity as it stirs up from a depressed mood over the last two months.
As new share issues queue to enter the bourse, retail investors are busy liquidating their holdings in search of more and better deals.
But the party may be over for the retail investors, who have been playing the stock market to make short-term gains ever since the Kenya Electricity Generating Company Limited (KenGen) public share issue hit the market.
The KenGen IPO experience has had a lasting impression on the stock market in Kenya. Its IPO was more than three times oversubscribed, and 70,000 people were allocated shares. The price quadrupled on the first day of trading.
But even the KenGen experience has reached its end. Now gearing for a secondary offer, the KenGen issue worth over 400 million shares has been reserved for the large institutional investors. The plan by the power generating company is to use a pro-rata method of share allocation, implying that shares will be allocated on the basis of the amounts applied for. This method works in favour of institutional investors who are likely to crowd out the retailers.
Signs of trouble for the speculators or 'stags' in the market appear to be taking shape already, if the pricing of the ongoing AccessKenya initial public offer (IPO) is anything to go by.
In what obviously will not be music to the ears of speculators, James Wangunyu, the Managing Director of Standard Investment Bank, confirms that they (speculators) are no longer a welcome group.

"We have priced the AccessKenya IPO in order to limit the activities of stags and retail investors who participate in the market purely for speculative purposes. This group of investors has the effect of distorting the market," explains Wangunyu.

The AccessKenya IPO prospectus limits the number of shares to be purchased by an investor to a minimum of 5,000 shares at Ksh 10 each, translating to Ksh 50,000. This minimum threshold pushes a large number of most speculative retail investors out of the AccessKenya IPO.

"When speculators move in and out, this activity destabilizes the market leading to volatility in share prices," says Wangunyu.

Worldwide, stags control an estimated 10 per cent of all stock market activities.

Peter Wachira, a senior investment manager at AIG Global Investment Group, admits that the market is composed of a large number of speculators.

"The public should know that investing in the stock market is a risky affair. It is not prudent for retail investors to go for loans from, say, commercial banks to buy shares because the risk of losing their investments is very high," says Wachira.

He says investing in the stock market is a game suited for those with a long-term view, especially institutional investors such as insurance companies or pension funds. These groups put their money in the stock market in order to meet long-term liabilities. They are not in a hurry and are willing to wait for their investment to grow as opposed to retail investors who only seek short-term gains.

The AIG manager sees the hand of investors at play at the stock market and cites the market fluctuations at the moment as an activity of retail investors.

"We expect the current fluctuations in the market to persist for some time to come. The market is pulling back as investors sell their stocks in order to have enough money to buy into the AccessKenya IPO and others," explains Wachira.

It is projected that the bourse will stabilize once the IPOs enter the market.

"Subscribers who have not got the full allocation will obtain their refunds and are likely to go back to the market to seek for deals. It is at this point that the stock market will stabilize," says Wachira.

"Further, given that we are in an election year, there is still uncertainty especially concerning the transition period after the elections. Investors are still unsure of whether to invest in the stock market or make an exit," he adds.

Stockbrokers say that the stock market is expected to fully recover after the elections scheduled for later this year, given that the economy is growing and all other fundamentals are right.

The impact of retail investors on the stock market is best exemplified by the Mumias Sugar Company (MSC) secondary offer when speculators moved in to buy up the shares for speculative purposes.

Stags borrowed money from the banks and snapped up the MSC shares in the hope that the share price would shoot up.

When the stock begun trading, its prices went down drastically, trapping in speculators who went in for a kill.

Then news began to filter in about the liquidity problems at stock brokerage firm, Francis Thuo and Partners.

It is at this point that retail investors put their fingers on the panic sell button, having a domino effect on all the other counters and ushering in a bear run.

"The market became depressed when speculators moved out as a result of negative publicity concerning Francis Thuo and Nyaga stock brokers, politics and correction especially on the counters with overpriced assets," says Wangunyu.

He adds that the market is on a recovery path and the momentum is going to be sustained over the coming months. The market has a very high absorption capacity due to the increased public awareness that has been generated especially following the KenGen IPO.

A report by AIG Global Investment Group mentions that the NSE is likely to experience a short-lived performance decline as investors liquidate their shares to participate in the impending IPOs of AccessKenya, Kenya Re-Insurance, KenGen and Safaricom.

As to whether the speculators will wither the assault on their activities on the market, only time will tell.

Banking

Local banks eye international trade business

By **Jackson Okoth**

With competition for the retail customer reaching new heights, local commercial banks are now pushing across the country's boundaries to lock in business from the dwindling but highly lucrative corporate sector.

One such niche market, which is attracting the attention of these banks, is the highly specialized and lucrative import-export business. Modalities are already being worked out between the private sector lending arm of the World Bank Group, International Finance Corporation (IFC), and several local commercial banks-Barclays Bank, Stanbic Bank, Diamond Trust Bank, Prime Bank, K-Rep Bank and I&M Bank-to unlock some US$ 1 billion(Ksh 69 billion), through a trade finance programme, to local companies engaged in international trade.

The arrangement between IFC and the banks enable companies smooth their cash flow and reduce the risk they face in foreign markets. Trade finance provides funding, through a bank, to a company to enable it to meet its obligations when funds are insufficient.
Antony Maina of Trade Finance Department at Diamond Trust discloses to *The Financial Post* that the bank went into an arrangement with IFC on this project in early February, 2007.
"We expect a lot of interest from the manufacturing sector who deal in large volumes. There is a huge potential in the trade finance business due to the fact that Kenya is a net importer of products especially from Asia and Europe," says Maina.
But how does trade finance work?
Imagine that a business called Kamau Electronics from time to time imports computers from a business called Beijing Computers, which banks with the Shanghai Business Bank.
Kamau holds an account at Prime Bank and wants to buy Ksh 500, 000 worth of merchandise from Beijing Computers. But Beijing Computers agree to sell the goods to Kamau and give him 60 days to pay for them on the condition that they are provided with a 90-day Letter of Credit (LC) for the full amount. The steps to get the LC would be as follows:
Kamau goes to Prime Bank and requests a Ksh 500,000 LC with Beijing Computers as the beneficiary. Prime Bank can issue an LC either on approval of a standard loan underwriting process or by Kamau funding it directly with a deposit of Ksh500, 000 plus fees.
Prime Bank sends a copy of the LC to Shanghai Business Bank, which notifies Beijing Computers that payment is ready and they can ship the merchandise that Kamau ordered with full assurance of payment.
On presentation of the stipulated documents in the LC and compliance with the terms and conditions of the LC, Prime Bank transfers the Ksh 500, 000 to Shanghai Business Bank, which will in turn credit the Beijing Computers account by the same amount.
Vasant Shetty, Prime Bank Chief Executive, says, "This trade finance facility will enable us to have additional capacity to take up trade finance transactions and also raise finance in respect of international trade related transactions at a very competitive price. Through the Global Trade Finance Programme (GTFP), we will access a global correspondent banking network and work with banks in markets where we do not have correspondent banking relationships. This is good news for our existing and potential customers as it enhances the current trade finance facilities extended to Prime Bank from various international banks."
The programme provides guarantees and pre-export cash advances to banks in more than 60 countries. With its global mandate, the programme plays a key role in advancing a worldwide network of bank partnerships to finance trade under risk coverage provided by IFC. The program offers confirming banks partial or full guarantees covering payment risk on banks in the emerging markets.

Investment

Suntra, Postbank take war to rural retail investors

By **Jackson Okoth**

Buoyed by intense public interest on the stock market, a number of key players and companies are lining up to tap into the lucrative business of securities trading at the Nairobi Stock Exchange (NSE). For instance, it is now possible for a farmer in rural Nyeri District or a pastoralist in Turkana to place an order and purchase shares at the NSE.
This has been made possible through a partnership between Suntra Investment Bank and Kenya Post Office Savings Bank (POSTBANK), two local companies engaged in provision of a variety of financial services.
"We are providing Kenyans with an opportunity to have access to the stock exchange through our branch networks. The public will now be able to purchase shares as well as trade in securities through our branches," says Nyambura Koigi, the Postbank managing director (MD).
Under the arrangement, potential investors keen on trading at the NSE will have a chance to do so through the wide Postbank branch network.
"We are providing a number of financial instruments, including Treasury bills, bonds and shares through the Postbank branches," says James Murigu, MD, Suntra Investment Bank.
The platform provided by Postbank and Suntra Investment Bank will cut down on the time needed by potential upcountry investors to participate at the bourse.
" As a member of the Nairobi Stock Exchange, we anticipate that it will take approximately a day or two before one is able to conclude any transaction at the market from anywhere in the country. We hope that in future, we shall refine the technology to enable upcountry investors to trade at the exchange on a real-time basis," says Murigu.
Soon, it will be possible to conduct online trading by investors anywhere in the country through Postbank branches.

“Already, we have 50 branches that are operating online and we intend to increase the number,” says Nyambura.
Apart from enabling Suntra Investment Bank to reach out to as many clients as possible, the partnership will also allow Postbank to fully utilize its idle capacity.
With mainstream commercial banks moving back to lock in the rural retail customer, stock brokerage firms are also setting up shop in these regions.
“Unlike in the past when people preferred investing in property, the trend is slowly changing as we move into more liquid options like securities. Participating in the stock market now enables individuals to become shareholders of solid companies. Securities can be realized in old age due to their relative liquidity, providing options to those who want to invest their life savings for old age,” says Murigu.
He adds that the Kenya Energy Generating Company (KenGen) Limited experience has increased public awareness about the opportunities available at the stock market, changing activity at the bourse completely.
According to Nyambura, the arrangement with Suntra Investment Bank will enable Postbank to enhance its efforts to mobilize savings in the rural areas and bring more financial services closer to the people.
“It is estimated that majority of Kenyans in the rural areas are still unbanked. We are thus providing an opportunity for this group of investors to not only save but also invest, thereby creating wealth for themselves and the nation,” says Nyambura.
A few years ago, a number of leading commercial banks either downsized or closed down their outlets in rural areas. But with the economy registering a recovery over the past three years, some of these financial institutions are tracing their way back.
But it is players like Postbank and other numerous microfinance institutions and savings and credit societies (Saccos) who stayed behind that are reaping the benefits of a boom in the rural areas. At Postbank, apart from trading at the exchange, dividend payments will also be effected at its branches. Further, a three-month staff training programme has already been conducted to ensure staff preparedness in handling stock market transactions.
The decision by investment banks to seek out new business in the rural areas comes at a time when leading brokerage houses are also introducing online trading services for those sophisticated, middle-income investors who are busy to come to the trading floor at the bourse or even line up to buy shares in, say, an Initial Public Offer (IPO) sale.
Similarly, a number of leading stock brokerage firms and investment banks have been running advertisements in the press, indicating the opening up of their retail outlets countrywide.

National

Giant Sacco faces competition from banks

By **Oirere Omanga**

As the adage goes, one man’s wedding may be another’s funeral. At a time when Kenyans, especially retail customers, are uncorking their champaign bottles because commercial banks are literally begging them for business, the once powerful savings and credit co-operative society (Sacco) movement is losing ground.
Boxed into a corner by the onslaught on its turf from a host of commercial banks that have introduced personal loan schemes under which applicants access loans easily, one such Sacco in Kisii is re-examining its operation strategy.
Under the proposed strategy, the 15,000 member Gusii Mwalimu Sacco’s board of directors aims to regulating its members’ borrowing so as to curb what it dubs “habitual borrowing.”
“Stiff competition from commercial banks, who have also started giving personal loans, has substantially reduced our business,” says Gusii Mwalimu Sacco Board Chairman Gilbert Meraba.
Commercial banks like Cooperative Bank of Kenya (Co-op Bank), Kenya Commercial Bank (KCB) and Barclays Bank of Kenya have eaten into the borrowing membership of the giant Sacco over the past one year after they introduced special loan schemes targeting Teachers Service Commission (TSC) staff and teachers.
For instance, a KCB brochure proclaims: “the new unsecured KCB personal loan offers more attractive terms and easy application procedure for Teachers Service Commission teachers and staff.”
It further explains that the teachers can use “the loan for personal needs such as payment of school fees, medical bills, insurance premiums, home improvement and renovations, purchase of furniture and domestic appliances”.
Other major commercial banks like Co-op Bank and Barclays Bank have made it easier for borrowers to access money without going through the rigours of providing details on what the funds are meant for as required by many member Saccos.
“The personal loans by commercial banks are what many of the Sacco members have been waiting for,” says Omoro Nyatangi, a teacher at Gesero Secondary School and a beneficiary of the bank loan scheme.

He says many teachers are rushing for the commercial banks personal loans because of the shortened period it takes to process their loans.
“The maximum period one can wait for a commercial bank personal loan is two weeks compared to a maximum of one year or more for a Sacco loan,” Omoro argues.
The chairman of the Gusii Sacco’s supervisory committee James Obuba admits that the loan processing period is the motivating factor fuelling the exodus of teachers from the Sacco as well as the deep pockets of banks.
“What has diverted members to bank loans is the short period within which they are processed for the banks have funds available at their disposal at all times unlike us (society),”Obuba told the Saccos annual delegates meeting held last month.
One of the proposals from the society’s supervisiory committee is to “start quick loans through SASA (now) product so that a member can walk away with money within a day.”
However, a number of Gusii Mwalimu Sacco members interviewed, said the stringent provision in the loan application form such as requiring one to have at least three guarantors before the application is considered, is driving many of the applicants to commercial banks to take advantage of the personal loan schemes.
“It has been a nightmare looking for guarantors who are loan-free and at times one is forced to induce a member to guarantee them, a situation that locks out many would-be beneficiaries of development or school fees loan,” adds Omoro.
But Meraba claims commercial banks hide certain facts from customers interested in their new credit schemes.
“Our members rushing for personal loans from commercial banks are not taking into account the interest charged by these institutions,” he says.
According to Mareba, “a critical analysis shows that a member who goes for a commercial bank loan of Ksh 300,000 ends up paying Ksh 496,000. It means he/she pays an interest of Ksh 196,000 compared to Ksh 72,000 payable as interest on the same amount of loan from our Sacco.”
A recent report by the 18-year old teachers’ Sacco says that at least 128 members had by last December cleared their loans with the society through loans taken from commercial banks.
But the giant Sacco is spoiling for a fight as it is designs new measures to discourage its members from going for commercial banks’ personal loans to clear their Sacco loans even before the stipulated repayment maximum period.
Consequently, the society insists that members pay interest accrued from their Sacco loans for the entire repayment period, which is usually of 48 months.
This is aimed at regulating what the board at the teachers’ Sacco calls ‘habitual borrowing’ by some members.
It has actually categorized such members into two categories.
“The first category is members who are habitual borrowers who are always on the queue to be loaned despite the fact that they do not have any reasons for taking the loan,” Mareba says.
“The second group,” the Board chairman says, “are those who were influenced by the period of repayment of sixty (60) months offered by the commercial banks”.
He disclosed that the amount loaned out to members has increased from Ksh 377 million in 1996 to Ksh 1.510 billion by 2005.
According to Meraba, the society made close to Ksh 1.6 million as interest from over Ksh 26.1 million cleared by members before the money was due.
“I still do not understand why I was charged interest on a loan that I repaid the society almost immediately. The same money has been loaned to a member who is also paying interest on it,” argues Omoro, currently a module II degree student at Egerton University, Njoro.
Even with the penalty, the rush for commercial bank personal loans is on and there is a likelihood of a downward trend in dividends payable to members of Gusii Mwalimu Sacco.
Although the board has recommended a 10.6 per cent dividend for members, which is an increase from the 10.5 per cent over the previous year, there are fears that the competition from commercial banks may eat into its performance.
Meraba argues that by preferring commercial bank loans to the Sacco’s (loans), the Sacco members “are forgetting the interest paid on the commercial banks loans would have been paid to them as dividends.”
Meanwhile, the giant Sacco’s board has proposed a 50 per cent increase in interest rate on development and school fees loans to members up from 1 per cent to 1.5 per cent.
Meraba says the current 1 per cent charged on development and school fees loans “is not adequate and in line with the current market trends since it was fixed several decades back when savings and credit societies were operating as social institutions with no element of profit in mind.”
Available information indicates that the 1 per cent charged on both loans is inadequate and cannot sustain the current cost of living and society growth aspirations,” he says.

A recently concluded impact assessment study by the Ministry of Co-operative Development and Marketing indicates that lack of training and knowledge of Asset Liability Management (ALM) poses a major challenge to many societies.

The study also reveals that a number of Saccos loaned out money to members at an average of 12 per cent when the same institutions borrowed funds from external sources at a higher interest rate of 14 per cent.