



The cost of KQ plane crash

By Jackson Okoth

A full picture of the scale of loss arising from the recent air crash involving the ill-fated 507 KQ flight from Douala airport in Cameroon to Nairobi may not yet be clear as details are still being worked out on insurance and compensation issues.

The Financial Post has pieced together details based on facts and figures obtained from interviews with actuarial experts, leading stock brokers and insurance companies and as well as KQ staff on the extent of the loss as well as immediate and future implications of this accident on the national carrier, Kenya Airways, shareholders, the aviation industry and the economy in general.

The vibrations caused by this plane accident, on the midnight of May 4th over the densely forested jungles surrounding the Douala airport in Cameroon were sudden and immediate.

By the close of trading the following Monday, the price of the KQ share plunged at the Nairobi Stock Exchange(NSE) to Ksh 80 from a high of Ksh 88.50 as the market reacted to the news of the wreckage find and confirmation of the accident.

The commercial and services counter moved 422,800 KQ shares as retail investors made a dash for the exit lane, pulling down the price to Ksh 80.00, shedding off an estimated 10 per cent of its value. This is compared to a share price of Ksh 88.50 and a volume of 222,318 shares traded at the close of trading on Friday.

Kenya Airways is one of the most heavily capitalized companies at the NSE, with its value placed at Ksh 39 billion. It is also ranked as one of the top performers in Kenya's corporate sector, with pre-tax profits beyond the billion shillings benchmark.

John Kiriimi, Managing Director of Sterling Securities says the future outlook of KQ share, like all other stocks, will be determined by both public perceptions as well as fundamentals.

"In the event that the ongoing investigation on this accident reveals an element of negligence on the part of the airline, this could have a detrimental effect on the KQ share. The possibility of the airline being shunned by travellers could also hit its bottom line," says Kiriimi.

"But as yet, what is filtering out to the public is speculation and rumours as well as information that is mostly not factual. Thus, a negative impact on the airline is unlikely until the investigations are conclusive," he adds.

The aircraft had reportedly been fully insured, including its crew as well as third party, implying that all losses resulting directly from this accident will be borne by the offshore insurance companies who provided the cover, including destruction of the forest where the wreckage was found.

Victoria Kaggia, from the KQ corporate affairs department says, "The airlines entire management is trying to deal with the crisis and it is still too early to comment on issues to do with compensation and insurance."

A unit manager at Pioneer Assurance Company Limited estimates that the insurance claim for the KQ accident runs into billion of shillings.

"Calculations for compensation must factor in cost of the aircraft, life and career earnings of the plane's crew and passengers, financial return of the aircraft during its entire lifespan as well as all other risks," says the manager.

The Douala incident comes in the wake of intense pressure exerted on KQ as one of the fastest growing airlines in this region.

For instance, KQ has had its anxious moments following the recent entry of Fly540 into the Nairobi-Mombasa route.

Fly540 charges a normal return fare of Ksh 9,280 while the national carrier KQ charges Ksh 12,400, all inclusive of taxes and travel handling fee. The only other player on this domestic route is Air Kenya with a package return fare of Ksh 10,500, exclusive of taxes, making it the most expensive airline flying to this destination from Nairobi.

The entry of Fly540 has apparently forced KQ to come down by offering special fares of Ksh 8,900, inclusive of taxes but restricted to specific flights.

Further, KQ has been rattled by the impending entry of UK's second largest airline, Virgin Atlantic, on the London-Nairobi route.

The airline will operate a 240-seater Airbus 340-300, offering 34 upper class, 35 premium economy seats and 171 economy on its daily flights from Heathrow to the Jomo Kenyatta International Airport.

Virgin Atlantic is expected to upset Kenya Airways and British Airways, the only two airlines currently operating direct daily flights on the Nairobi-London route.

Other airlines operating the Nairobi-London route are Swiss Air, Sabena, South African Airways, Ethiopian Airways and Qatar through their home bases.

Sources in the aviation industry also disclosed that KQ is also having competition constantly nibbling on its heels on the domestic routes.

For instance, the entry of Middle East airline companies, including Qatar airlines, on the Nairobi-Entebbe route has been a major concern for the national carrier.

But perhaps the nature of the loss of this plane crash has caused both the offshore insurance companies and the airline begins to shape up when one considers the price of the aircraft.

A visit to the US-based Boeing website places the market value of a commercial Boeing aircraft, of the nature involved in the KQ crash, at between US\$66 million and US\$75 million (Ksh4.6 billion-Ksh 5.2 billion).

These prices reflect a range of available options and configurations that may affect price, including performance capability, interiors and capacity.

KQ did not actually purchase these 737-800's but obtained them on a lease from Singapore Aircraft Leasing Enterprise, a leading customer of Boeing.

The Singapore-based leaser supplies airplanes to airlines worldwide, with current customers in Asia, Europe, the Middle East, the Pacific and North and South America.

The crashed plane there comes from the lowest priced range in the Boeing stable, compared to the 747s, 767s or even the top range 777s and 787s, priced at between US\$120-220 million (Kshs 8.4-Kshs 15.4 billion) based on the 2006 figures.

Actuarial experts put the amount of insurance cover for this plane, including its projected income stream over its entire life span as running into billions of shillings.

As loss adjusters embark on making actual calculations on the insurance claims, the way KQ emerges from this set back may well determine its momentum into the future.

Apart from the insurance cover, which is to be paid for offshore as well as locally, KQ has spent resources setting up crisis management centres and incurring contingency expenses including transporting both relatives and personnel to and from the crash site.

A Nairobi- Douala return ticket on a KQ flight is US\$ 879(Ksh 61,530) and US\$959(Ksh 67,130) economy class. The cost of air travel alone, for the 18 relatives of the crew, to the crash site and back cost the airline some Ksh 1.2 million. This amount excludes the cost of eventually transporting the bodies of the crew members back to Nairobi.

In a worst case scenario, the airline could pay millions in compensation to the families of the crew members in the event that the airline is found to have been negligent.

Given that the aircraft was on a lease, it is still unclear to what extent the airline is liable especially in the event that investigations reveal flouting of any safety procedures and regulations or negligence on the part of the crew or the airline company.

Kenya Airways is one of the only four African airline companies with an IOSA certification- an International Air Transport Association (IATA) Operating Safety Audit. IOSA is the benchmark for global safety management in airlines.

This accident puts the airline under intense public scrutiny, especially in the light of views that KQ's rapid expansions in recent years could have hit the apex, overstretching its resources to the limit.

Also, KQ's lack of adequate information on events leading to the crash does not help.

For instance, at the Thursday press briefings, convened at Panari Sky Centre, KQ Chief Executive Officer Titus Naikuni shielded civil aviation boss Chris Kuto from answering questions, leaving a battery of journalists including TV news anchors with more questions than answers.

The fact that one of the pilots of this ill-fated plane was only 24 years old raises fears about the experience of KQ pilots and questions about their constraints in terms of resources deployed on the new routes.

This is the second major air disaster on the West African circuit in a span of seven years since January 31, 2000 when flight KQ 431 fell from the sky into the sea, off Cote d'Ivoire, killing 169 passengers.

Both these accidents involving an Airbus 310 and a Boeing aircraft have raised serious questions about the safety of this western Africa route.

KQ is ranked as the leading airline in East Africa and the sixth-largest in Africa (IATA). It operates a fleet of 23 commercial jets serving some 44 destinations across the globe.

Kenya Airways announced record profit growth for 2005-06. After-tax profits increased from Ksh3.88 billion (about \$54 million) to Ksh 4.83 billion.

The five largest African airlines are South African Airways, Egyptair, Air Algerie, Royal Air Maroc and Ethiopian Airlines. KQ is the sixth largest on this list (IATA rankings 2006).

Amaco's quest in an overcrowded market

There is now a widely held view that Kenya has too many insurance companies. Further, an elaborate network of ambulance chasers and unscrupulous brokerage agents are giving the industry a bad name. *Jackson Okoth* spoke with Kennedy Abincha, who is the General Manager of AMACO (African Merchant Assurance Company) insurance firm. Below are excerpts:-

Q. When was AMACO established?

A. The company was established in May 2000 and has been in the market for the last seven years. We started off with two branches one in Mombasa and the head office in Nairobi. By 2002, we had opened two additional branches, one in Eldoret and the other one in Kisumu.

Q. What are some of your key products and areas of specialization?

A. AMACO does the general insurance business-short term policies which usually run for about one year. All general classes of business including motor, fire, burglary, workmen's compensation, employer's liability and customs bond business. We used to do aviation business but have dropped it on realizing that this line is not very lucrative.

Q. What is your experience in the motor business, an area previously shunned by many insurance companies?

A. Motor vehicle insurance is mandatory in Kenya and there is no way an insurance company can avoid it. The issue is how selective is an insurance company when dealing with motor insurance. We have motor private and motor commercials.

Motor private, for most insurance companies, is a loss-making class. It is not common to find an underwriter making profit from this class. The class where underwriters tend to shun has been PSV (Public Service Vehicles). We need to understand that insurance companies must have social responsibility. If we all run away from this business, from where is the PSV operator going to get cover.

Previously, there was no discipline in the PSV sector. But when former Transport minister John Michuki introduced more stringent rules, we saw an opportunity to explore the business. We now have a large number of companies doing PSV underwriting business.

Q. How has the company been able to deal with fraudulent claims, especially in the motor business?

A. The problem of fraudulent claims is regional, from our experience. Some areas like Western Kenya and Nyanza provinces generate a high number of fraudulent claims. As a company, we have tried to send our investigators and assessors to these areas, within the shortest time possible.

True, the industry has ambulance chasers, and it is hard to get rid of them. However, we have identified who is who in the ambulance chasing racket. We have also identified advocates engaged in ambulance chasing. Recently, advocates came out to discipline their own members and this is a good sign. The legal fraternity has in the past been unable to discipline fraudsters.

Q. How elaborate is the ambulance chasing network?

A. The areas most affected are not only motor vehicle but also workman's compensation claims. For instance, tea estates now have a high number of fraudulent cases. The network is so deep. We are told that for every claim reported, the police are paid.

Getting an abstract from a police station is so easy. Some officers are also known to give instructions to advocates. We also have advocates who have employed staff to undertake ambulance chasing. In some areas, we have people on motor bikes, employed to track the accidents and follow victims to the hospitals and wards, with promises to assist them with recovery.

We have also unethical doctors who collude with unscrupulous advocates to make false reports. We normally insist on a second opinion in cases where we have doubts. However, in every profession, we have errant members.

Q. What is your main line of business?

A. Although we are mainly targeting the corporate market, we have realized that the insurance business in Kenya is more political, making some accounts untouchables.

In the procurement rules, the lowest bidder is awarded but this is just in 'quotes'. We have, therefore, moved from accounts influenced by politics into personal lines of business, where we interact with the client eyeball-to-eyeball. We target small businesses, whom we can give more personalized services.

Q. Briefcase insurance brokers and agents appear to have given the industry a negative image. How is AMACO dealing with this problem?

A. The rule is that one must be licensed by the Commissioner of Insurance. An agent, unlike an insurance broker, does not need an office. It is now mandatory that motor and fire business can be cash-and-carry in nature, implying a direct payment by the client. The credit period has been erased. The Act formally allowed an agent to hold premiums for 30 days and a broker for 60 days. That was a loophole. The new method is going to increase our liquidity.

The public is also not aware of the intricacies of getting a cover. One pays money to a broker who then issues a brokers' receipt. Most people do not take time to find out whether their premium has been remitted. The only way to confirm this is by having an underwriter's receipt. One should personally fill the proposal forms; ensure that the full premium is paid to the underwriter and that the policy documents are given to them.

One can insure a vehicle for, say, Ksh 1 million but only Ksh 500,000 is submitted by the agent. In such cases, the insured is only safe when an accident does not occur, but if it does, then they (clients) realize that they have been conned.

Before clients pay premiums, they should fill and sign proposal forms and write a cheque directly to the underwriter to avoid being conned by unscrupulous agents. Also, they should be given underwriters' official receipt. These are some of the advice we give to members of the public. We are, however, getting some resistance from brokers who say that we are meddling with the clients.

The law says that if you have not paid premium, the claim is not payable and therefore the aggrieved client cannot take the underwriter to court. This was not the case initially where all one required was to have the certificate whether the premium was paid or not to sue an underwriter.

Q. Do you consider the insurance market as over-crowded?

A. The office of the commissioner of insurance has been working as a department within the Ministry of Finance. The industry has an estimated 45 insurance companies. Compared to other economies, we may be finding ourselves overcrowded.

We also have a 'me too' culture, with everybody wanting to own an underwriting firm. Most of the insurance companies in Kenya, doing about Ksh 300 million worth of business, can be considered branch business in a country like South Africa, which only has 25 underwriters.

On the other hand, there is not enough public knowledge on the need for insurance. The potential of our market is huge. In some economies, insurance services are not transacted like we do in Kenya. For example, the travel insurance market remains untapped.

Further, the Islamic market remains largely uninsured. Maybe it is because these community does not believe in insurance compensation. So, the whole of Northern Kenya, parts of Coast province and the Islamic community in general remains uninsured. Perhaps we need special products for them. Most companies are duplicating what their competitors are doing and this has been a major challenge in the industry.

Q. What are insurance companies doing to tap the low-end of the market?

A. Insurance companies have been selling products in rural areas for a long time now, especially to teachers who now have an average of five policies each. In the life segment, almost all civil servants are covered.

The minimum for motor insurance is Ksh 5000. One cannot insure below this value because of regulation, which does not allow price undercutting practices. But generally, a number of insurance products have not done well because of our culture. For example, we have customs that forbid one to talk about death and this affects life insurance.

Q. Is bankassurance a threat to the insurance business?

A. Banks do not provide underwriting services but are in partnership with insurance companies. They are eating into the insurance broking business. Insurance companies are also in partnership with the banks. It is the broking and agent business that is being affected. We are now selling a lot of products through the banks, especially in asset financing.

Management

Multibillion South African company targets Kenya

By Samwel Kumba

Bad as things may look in Kenya, there is not enough start-up capital for new businesses across the continent, including South Africa, which is touted as one of the richest countries in Africa.

Starting a new business is, of course, the great dream for many of us. To do it, one needs money. More often than not, entrepreneurs have expressed frustrations in getting start-up capital in Kenya. There is just not enough money available for investors willing to take a risk.

It is then left ultimately up to entrepreneurs to make or break on their own with the government's role confined to providing an enabling environment.

A chat last week with Paul Conradie, the Managing Director of Comztek, a South African based information technology (IT) software distribution company revealed that the company's (Comztek) establishment is not unique too.

Unable to secure funding to invest in Comztek, the company was left with no alternative but to search for an already established firm for possible partnership. They landed on a listed one- Mustek Group.

Before then, Comztek's growth rate was quite impressive and return on their investment came fairly quickly but they needed more capital injection. At the time, the MD says, Comztek was at infancy stage and banks were not ready to finance them.

Conradie explains: "To start up a software distributor company requires an incredibly huge working capital which is one of the reasons we had to approach a listed company to help us position ourselves for eligibility of financial support from banking institutions. On our own, efforts to secure a loan from any financial institution bore no fruits."

Today, Conradie boasts of running a Ksh 7 billion (\$ 100 million) worth company. When *The Financial Post (FP)* sought to know how he has been able to grow the company that much, Conradie noted that all it takes to grow any company is to lead it well, be innovative and have the necessary capital.

"At our third year of operation we qualified for securitization contract, which is a fund set up in South Africa for companies that are growing pretty first. We were given a loan of about Ksh 700 million (\$ 10 million). The contract matured about two years ago and we re-negotiated for more funding. We were granted about Ksh 980 million (\$ 14 million) to finance our growth," reveals the MD, whose company scooped the 2005 Outlook Awards in the categories of networking, client access, software, security management as well as graphics software.

Comztek East Africa

Establishment in 1995, Comztek has grown tenfold. It has since spread wings across the continent including into East Africa where last week they officially launched the Kenyan office as a hub for the regional market. Comztek, which joined the Mustek Group in 1999, has branches in Cape Town, Durban, with its head office in Johannesburg.

Asked what brings Comztek to Kenya, Conradie cites the opportunities for growth in Kenya in particular and the region in general.

He explains: "We saw an opportunity over here. It is known within the continent that East African market is quickly maturing. And after all Kenya has a stable economic and political environment despite the fact that the market is not as big as South Africa."

According to the MD, the company has expanded into African operations to meet growing demand for IT services and products across the continent. And Comztek has already established itself as one of the largest all-in-one distributors in the Southern African Development Community (SADC) and already has branches in Zambia, Botswana, Namibia and Zimbabwe and is looking to open branches in Mozambique and Angola in the near future.

"In addition, we have opened a warehouse in the United Kingdom to reduce lead-times as well as overhead and logistical costs. The warehouse supplies and supports the growing demand for networking equipment by African resellers and their customers," explains Conradie.

Challenges

Robert Allela, the regional manager of Comztek East Africa tells *FP* that establishing the East African office in Nairobi has not been without challenges.

He explains: "First there is lack of a structured channel to distribute our products. There is also the issue of piracy, on which, however, there is a lot of education going on. One of the things we have also had a problem with, but which we have managed to handle somehow given our experience, is credit management. We usually sell on wholesale. This means that in some instances we have to give credit. We also have challenges dealing with smaller companies which have their own financial constraints."

Allela reveals that Comztek has had to team up with its primary partner-Microsoft Corporation-to address most of their challenges.

"On the credit management, we are trying to secure our debts by trying to know our customers before crediting them. We are also creating links to untapped opportunities in the market-businesspeople dealing in electronics," says the GM.

The firm has taken advantage of the brand name of Microsoft, to push their brand in this region.

Listen to Allela: "Microsoft already has a brand name. Ours is to try and work with Microsoft in a bid to create a critical mass for our product. Comztek in South Africa is quite strong and I can only see it growing even faster over here."

Saying that their partnership with a listed company has not tremendously affected their growth strategy, Conradie sounds comfortable with the fact that in a listed company, decisions are made at a board level.

"This does not adversely affect our expansion strategy. We are still proceeding carefully into Africa by first exploring the expected risks. Actually we are getting incredible support because of our association with a listed company," he expounds.

Allela, all but envisions, a Comztek East Africa that is a household name in the software distribution sector in the next few years.

He says: "We want to offer an effective and quality product and grow the market to the wider continent with Nairobi as a hub. We also would like to provide a good number of employment opportunities for Kenya."

Expressing fears that in the area of IT distribution, there is a tendency for one to become a jack-of-all-trades yet a master of none, Conradie spells out Comztek's aim as to stick with what they know best in order to deliver the highest value to their reseller channel.

He says Comztek's expertise in networking and security which go hand-in-hand along with ancillary technologies such as storage, backup and power management, enables their resellers to develop solutions for their customers that are not only based on best-of-breed technologies but also best practice.

Little wonder then that Conradie was in record saying that Comztek's win in the category of Graphics Software was no surprise.

"There is considerable synergy in the area in which we play-namely the generation of secure electronic documentation: e-paper is a strong growth area as users become aware of the value of electronic documentation. A good example of this is the ICT Act which came into force in South Africa- it was electronically signed by President Thabo Mbeki using Adobe's Acrobat technology," Conradie explains.

To Kenya's software distributors frightened of competition, this is even more frightening: you are now competing directly with Comztek.

Entrepreneurship

Varsities to support enterprises

By Samwel Kumba

A number of local universities are engaged in a joint project with the Ministry of Trade and Industry to conduct research and develop case studies aimed at supporting micro, small and medium-sized enterprises (MSME).

The project is supported by the International Finance Corporation (IFC) through their skilled staff and GBSN (Global Business School Network) involving renowned international professors who have time and again collaborated with the local professors and the ministry of Trade and Industry.

Institutions involved include the business schools of Strathmore University, Kenyatta University and Jomo Kenyatta University of Agriculture and Technology.

This project was developed out of the need to identify, through studies, and implement three broad components of entrepreneurship- which are:- access to finance, strengthening enterprise skills and market linkages and improving the business environment.

Small and medium enterprises play a vital role of nurturing entrepreneurship and provide the much needed employment and incomes for the larger population of both the developed and developing economies of the world.

Assistant Minister for Trade and Industry, Petkay Miriti, says that the big companies in Kenya and the world today are said to have started small and with good policies and management of the enterprises, they have grown into big enterprises.

He explains: "Developed countries like America and Israel still give very special emphasis to their small enterprises because these governments believe that they (MSME) play an important role in their economies. In Asia, the tigers have grown into large economies, overtaking Kenya, yet at one time we were at the same level with them. This is because of the special programmes they have put in place for the growth of their small enterprises."

At least, just like the rest of the world, the government of Kenya now recognises the important role the small enterprises play in developing the economy. According to the Economic Survey Report of 2006, this sector contributed over 50 per cent of the new jobs created in the year 2005, and in 2003, the sector employed 5.1 million people rising to 6.4 million in 2005. The importance of the sector has been enhanced due to the recent purge of unemployment and restructuring of both the private and public sector that has increased the number of the unemployed in addition to the enormous number of graduates from our universities and other tertiary colleges.

Miriti, for example, says that the small enterprises sector has given those retrenched a soft landing where they try to do business for their subsistence. The sector, according to him, is becoming more and more vital with the governments focus on supporting the youth and women interested in setting up businesses. In spite of these positive contributions the small enterprise sector is making, there are many challenges these enterprises face that constraint their growth.

“Our universities and colleges utilise the lecture method to deliver most of their programmes. In circumstances where case studies are utilized, those cases are more often foreign, which makes it difficult for the learners to relate to them and apply to the work situations. I am glad and wish that this gap and need had been identified earlier. The development of local case studies is a milestone and the ministry expects this initiative to have an immediate and direct impact on our graduates, businessmen and the economy at large,” explains Miriti.

He adds that since such cases are practical and from the local setup, students and entrepreneurs can easily relate to them and apply lessons to their own situations.

The programme has indeed progressed as cases developed earlier have already been used in training local entrepreneurs who found them relevant and helpful to their business enterprises. In fact, the three universities are already using the cases in teaching the students in their business schools.

More interesting is the fact that these cases are being used globally through sales made in the European case auction. Miriti points out that the acceptability of these cases in the international market is an indication of the good quality of cases the universities are producing.

“I am also happy because these activities will be sustained since our professors are being trained and mentored to sustain the spirit and develop more cases. I am aware that there are cases being developed for the large enterprises by one of our private universities so that a gap is not left at that level. But we expect the development of cases focussing on small enterprises to inculcate entrepreneurial culture in our students as they recognize them as an avenue of employment for graduates and not just school dropouts or those who are academically challenged. There are graduates out there who have started small enterprises that are doing very well,” Miriti opines.

Today, students are considering small enterprises as an avenue of employment, an activity that has bridged the gap that has existed between the university professors and the real world of small enterprises for ages.

The close working relationship between the case writers and the entrepreneurs has made the university professors understand both the entrepreneurs and enterprises in the sector and it is envisaged that this will enable the institutions’ business schools come up with appropriate curriculum that will meet the needs of developing small enterprises.

“As a way forward, the ministry is keen on seeing the activities of these components cascading to the rural towns to reach those doing business in those areas. We would also like to have the knowledge acquired by the university professors shared and passed down to the tertiary colleges such as our national and village polytechnics as well as other business colleges in the private and public sector,” assures the minister.

And it is also our considered opinion that strategies should be worked out for the rest of the universities to benefit from these initiatives, he concludes.

Energy

Power cuts hurting business in Kisii

By Oirere Omanga

Entrepreneurs in Kisii district have raised concern over frequent power outages in the area and its effects on their business.

The worst affected by this problem are emerging and established small and medium enterprises (SMEs).

“I have lost many customers over the past few months because electricity supply has been irregular, making it impossible for me to meet deadlines,” says Walter Nyaoso, the chairman of the Kisii Jua Kali Association (KJKA).

The amount of power available is so little, the Jua Kali official says, that some of the activities like spray painting and heavy welding works cannot be sustained.

“Jua kali operators in this region are justified to say that Kenya Power and Lightning Company (KPLC), which should support these enterprises, is actually strangling the sector, a source of income for hundreds of self-employed people.”

According to the KJKA official, these irregular power outages have been going on for many hours. “One week ago, we had to suspend business for a whole day, with no explanation from KPLC officials,” he says.

“It is like KPCL personnel interrupt power when they want to and this has affected out business operations badly,” says Nyaoso.

“Unless this problem of persistent power outages is resolved, many of us will be driven out of business because many customers will simply desert us for being unreliable,” he warns.

Nyaoso goes further to add that many of the entrepreneurs in Kisii town are baffled by what he terms as the “studious silence by KPLC even after many days of protests from those who have no alternative source of power.”

“Many SMEs have had to suspend casuals daily operations because of persistent power interruptions. One can imagine what that is doing to our families,” he poses.

One of the hardest hit SME sector is the information and communication technology (ICT), which is still trying to find its footing in the town and the environs.

“Given that in the ICT sector, we have to rely heavily on power, we have been hard hit over the past one and half weeks because power keeps on going off unexpectedly,” says Dominic Mainga, a proprietor of MCom Technology.

He says, “I run an ICT college which has been shaken by the unexplained frequent power failures. Many of our students now think we are conning them of their money because we cannot hold lessons during some days when there is no power.”

According to Mainga, many SMEs in the town are considering many expensive options in trying to address this problem of frequent and persisting power failure.

“We are looking at the possibility of obtaining one generator at a cost of Ksh 60,000 and which can comfortably run 20 computers. However, this is an expense that was not budgeted for. It now appears we have no other option,” laments the entrepreneur.

Citing a past incident which turned out to be a racket in the area, the entrepreneur expresses some fears: “We experienced a similar situation a few years ago with rumours having it that well connected individuals were inducing power blackouts to create a market for generators that they had allegedly imported.”

Over the past few months, a number of cybercafés in the town have lost customers to competitors who have alternative source of power like generators with at least two closing shop for lack of enough clients to sustain their operations.

“It is obvious that we closed business because of losing customers disgusted with continuous power interruptions, an issue we raised even with the former Acting Energy Minister Henry Obwocha without success,” says Fred Kebee Momanyi, a former manager of Hema Internet Services, which has since closed shop.

Efforts by *The Financial Post* to get a comment from the Kisii KPLC office bore no fruits as the officer in charge declined to talk or even identify himself and referred us to the Kisumu office.

Further, efforts to talk to the engineer in charge of customer care at the KPLC Kisumu office, Odhiambo, were unsuccessful but one of his deputies who identified himself as Kibias referred us back to an officer in Kisii Isaac Masita Machoka who, however, was not available for comment.

As the unexplained power blackouts persist in Kisii town, a recent report by the area’s district development committee has expressed concern over the unexplained outages that have threatened to ground a number of businesses.

“The electricity supply in the district has not been reliable as the area suffers frequent power failure and voltage fluctuation which has affected power users, as they need to have standby generators to supplement the inadequate supply,” the report says.

Some of the worst hits SMEs in the town include motor vehicle mechanics, hairdressers, welders and computer based businesses.

Entertainment

Kenya’s film industry still waiting to exhale

By Mwangi Maingi

In Kenya, film has been taken for granted. Yet, it is touted as one of the best ways for communicating as well as a source of entertainment.

It is also widely acknowledged that film production is big business, considering the number of entertainment companies based in Hollywood, Bollywood and Europe.

With proper structures and policies in place, the film industry has a great potential and can also thrive in Kenya, earning the government revenue and contributing to the country’s gross domestic product (GDP).

In an interview with *The Financial Post*, Nathan Onsare Asiago, a university don who has a wide range of experience in film and theatre industry concedes that the film industry in Kenya can reclaim its lost glory and even move to greater heights.

Asiago, who has experience in Bollywood having been associated with the directors for production during his masters and currently lecturers in theatres, film and script production at both Maseno and Moi University, argues that the development of the Kenyan film industry rests with Kenyans themselves. According to him, Kenyans need to take an initiative to nurture and ultimately bring the industry to its desired glory.

He projects that the country has the capacity to produce a minimum of 60 films annually, out of which consumers can purchase about 2 millions copies per film. This translates to a total sale of 120 million copies. Asiago is convinced that the amounts involved can contribute immensely to Kenya's GDP as well as tax revenue.

Besides, he says, the industry will be able to provide over 60, 000 direct jobs and 200,000 jobs indirectly, enabling the government to achieve some of its targets in the Vision 2030 strategy.

"The development of this industry will, besides the aforementioned benefits, lead to increased flow of foreign exchange, improved markets, cultural preservation and development. In so doing, we will attract foreign movie developers to partner with the local producers and boost the professional development of screen content creators," explains Asiago, who has carved for himself features of a self-motivated, conscientious, diligent and educator inspired by results.

Research on the industry

Asiago, who has over time done extensive research in the film industry, has since established that if revived, the film industry in Kenya will not only help in the preservation and availability of Kenyan national audiovisual collection but also assist in data collection and analysis as well as provide information that can cultivate diverse and distinguish indigenous Kenyan work to promote its recognition as part of Kenyan screen culture.

He believes that this will maximize the participation in the market by Kenyan players and instill a sense of nationalism, national integration and unity.

However, this cannot be achieved until several measures are put in place in order to assist in promoting Kenya as a major film making destination, argues Asiago, citing the need to help structure the local film, music, photography, animation and television industries.

Asiago, a masters' degree holder in theatre and television and currently undertaking his PhD at Maseno University in literature, says the research he has previously been undertaking clearly indicate that for the full potential of the industry to be realized, an independent institution giving direction to the sector need to be established.

"We have the required sceneries as well as makeup experts. All we need is to enhance their capacity to nurture the local film, music, and TV industries," offers Asiago.

Such an institution can easily unlock the strengths and expertise of Kenya's film industry through training and research to market the country. He says, adding that through consultation with other experts, it can also create an enabling environment for foreign and local filmmakers.

"This will also create job opportunities, thereby providing local content in our electronic media, promote tourism, act as a socio-political expression media, provide developmental communication, advice on foreign film distribution in Kenya and assist in sourcing of finance for the players in the film industry," explains Asiago, who also has a post graduate diploma in Business and Industrial Management from the Central Institute of Management (CIM).

With a well structured system, composed of visionary leaders and devoted personnel, this institution, according to the don, should operate assorted departments each allocated various tasks ranging from administration, finance, communication, production as well as training and research.

Marketing Kenyan film

On marketing Kenya as film making destination, Asiago's research points out a few areas that need some strengthening.

"This includes tax holidays and exemptions or selective taxation, location scouting, location fee waivers, logistical assistance, which includes processing of licenses and filming permission, talent search, studio facilities, social and welfare services like accommodation, food among other things which go along way to make interested parties comfortable," he expounds.

He also cites the need for information and communication strategies, security and transport, piracy control, exhibition and screening assistance as well as distribution, business contracts, trained personnel, theatre modern equipment and archives, all of which are ideal for a typical film industry.

The institution Asiago talks of should be equally responsible for advising the government on developing the film policy and establishing ways in which the government can support it, especially in curbing piracy. Apparently, film and music piracy poses the greatest threat to the film industry and the exchequer.

"Kenyans spend hours watching or listening to pirated film and music, which can be translated into billions of shillings lost annually. This robs Kenyan artistes and the government revenue," explains the don who equally has a post graduate diploma in law from CIM.

Asiago, who has previously written film and stage scripts as well as directed a number of films and video productions both in Kenya and other East African countries, feels that a lot needs to be done to protect the industry from piracy. This can be done through use of taxation dynamics, tough anti-piracy laws, sensitizing the consumer and the business community on pirating consequences as well as having a government seal at a small fee.

He is convinced that financing the industry can provide the much required lifeline to the industry.

He explains: "It can be appreciated that film industries that have been well financed have developed into higher levels while those which have not been financed well, have remained in their infancy stage and Kenya's film industry is a good example of that."

According to him, various measures can be undertaken to revive the industry. This includes creating a Kenya film financing cooperation, collaborating with the commercial and development financial institutions to offer loans and grants for film production as well as networking with developmental partners like the World Bank, and non-governmental organizations.

"There is also need to develop a reliable distribution network for sustainability of the profits in the industry. In consideration of these strategies and their proper implementation, the Kenyan film, television, animation, photography and music industry is bound to take a big stride to greater heights and this in turn will help in developing Kenya's economy substantially through employment and revenue creation and as well as a proper cultural expression," concludes Asiago.