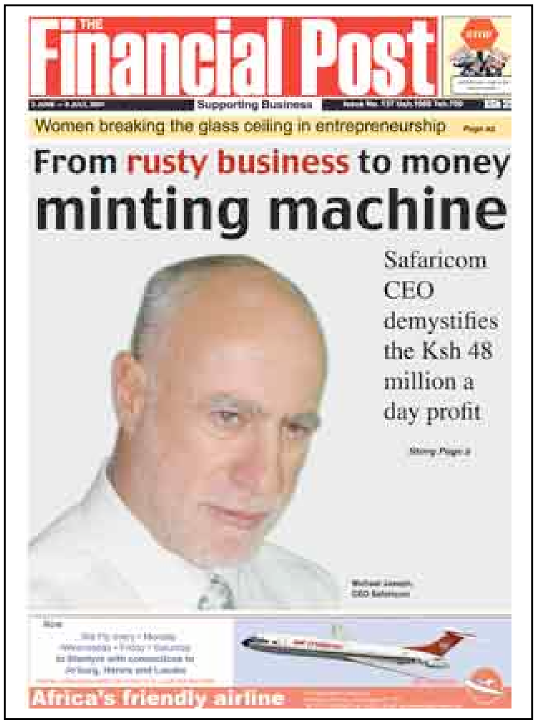

From rusty business to a money minting machine

By Jackson Okoth

As unbelievable as it sounds, Michael Joseph is today the top dog in Kenya's fiercely competitive corporate universe. His is a perch that has never been occupied by anyone else; the highly-prized and coveted position of head at the most profitable company in Kenya and the entire East African region. But what makes the Safaricom story all the more remarkable is that it was once a rusty and moribund department, within the defunct Kenya Posts and Telecommunications Corporation (KP&TC).

The Financial Post walks down memory lane with Michael on where it all begun, the first crucial decisions that were made and how the company grew into a colossus, weaned off from the teats of its parent Telkom Kenya. The following events occur between 1997 and 2007, capturing details of how the foundations and building blocks of Safaricom were laid and structured, dusted and turned into the ferocious cash dispenser that it has become today.

Where it all begun

More than a decade ago, the then state-owned KPTC had begun an intense search for a technical strategic partner, to take over its moribund analogue mobile phone service.

The process went on up until May of 2000 when Vodafone Group Plc, a mobile network operator headquartered in Newbury, Berkshire, England, turned up at the scene.

The transnational immediately pumped in a cash injection of US$ 20 million (Ksh 1.3 billion), into an outdated and congested network, which had struck out as a malignant tumour on the foot of a dying parastatal.

During this period, the analogue mobile phone service which had just acquired GSM technology was operating within Nairobi and Mombasa only. It had only rolled out a paltry 11 base stations in Nairobi and 5 in Mombasa, offering a highly overpriced service to those who could afford it.

What Michael inherited and used as his building blocks was a company offering a damn expensive but poor quality service, fraught with long queues of angry subscribers.

"It was damn expensive to get a mobile phone and use it, if the network failures let you use it in the first place. There was also a low quality customer service with subscribers queuing to pay their bills. Customers' bills were irregular and intermittent. It was almost a service put together on a shoe string," reminisces Michael Joseph.

Now occupying the 7 th floor of Safaricom House, along Mombasa road, Michael arrived in Kenya in June 2000, landing in Nairobi with a team of five people from Vodafone, with a mission to resuscitate Safaricom.

"We inherited a very poor network and not very happy customers. Our immediate target was how to relaunch this company with only the US$ 20 million (Ksh 1.3 billion), which Vodafone had originally put into the company," says Michael.

The Safaricom boss mentions further that while it was expected that KPTC was to chip in, all it did was to provide its rusty network and a dissatisfied subscriber base.

Also acting against the company was its competitor Kencell (which has since changed its name to Celtel), which at the time of inception, had already been awarded the second mobile phone operator license, in February of 2000. It was already off the starting blocks and was rearing to launch its service in August of 2000.

Kencell had a brand new and bigger network, presenting great challenges for the technicians and Vodafone technocrats at Safaricom.

"Safaricom had about 17,000 subscribers when I came on board. I never got to know what the company's turnover was then, but it was very small. Given that each subscriber was spending about Ksh 5,000 per month, this gives an indication of what the revenues were back then," says Michael.

It was against this background that Michael begun the job of piecing together an outfit, finding all the missing parts, dismantling the entire network and putting it back together, with a competitor breathing down his neck.

“The agreement was that we would take over all the Safaricom employees and in July, 55 people came over from Telkom. We then awarded a contract to Siemens for the infrastructure upgrade, setting up the platforms and the pre-paid billing system,” says Michael.

The building blocks

Moving into the ground floor of Norfolk Towers, Michael and his team of 5 employees rolled up their sleeves and first begun by reconstructing the offices. The next business was to begin rebuilding the network by adding in new base stations and sprucing up the billing system, establishing a fully-fledged and 24/7 customer care facility that would be able to handle the restless 17,000 dissatisfied subscribers and a skeptical public with no mobile telephony culture.

The team then moved to put together a customer friendly marketing team as well as drawing elaborate sales plans and design for the network.

Michael and his team had to work day and night for the rest of that year, their adrenaline pumping and with a mission in mind. They had to relaunch the network, just in time, to pull the carpet off the feet of Kencell, which had over 85,000 subscribers by then and was already making inroads into the unexplored and virgin mobile telephony market in Kenya.

“On October 20th of 2000, we relaunched the network, which brought everybody over to the new system. We began to sell our new phones and change pricing modules which was all pre-paid,” he says. Safaricom by then had only 17,000 subscribers.

“By the time I got here, the price of a handset was going for between Ksh 100,000 and Ksh 120,000. We sold the first handsets we brought in for Ksh 8, 000,” he remembers.

At this moment in time, Safaricom was up against meeting the expectations of an already existing customer base, composed of individuals and corporates, who were expected to migrate to the new network without any hitches.

The company had to provide uninterrupted service, overcome all the quality related problems and congestions that were rampant in the network prior to the entry of the Joseph team. Previously, there were instances when one could not make a call the whole day on the network.

Among the first critical departments that were set up was customer care, the human resource department, engineering technical and then sales and marketing. “These were the key departments we set up immediately at that time,” says Michael.

His team had also to make key decisions on the direction the company was going to take, considering that it was beginning from a disadvantaged position in many respects.

“The very first decisions included launching a pre-paid billing system. That means that we had to get a pre-paid billing system in place as well as scratch cards. I believed that our target market was going to be the ordinary man on the street and not someone with a credit card. So we started with prepaid.”

Joseph and his team also made a decision which though costly in the short term, was to be their major selling point and launching pad to a price sensitive customer.

“We decided that we were going to bill per second despite the fact that billing per minute gives you 20-25 times more revenue than per second billing. This was a big gamble considering the fact that we were starting with no money. Not many people understood this,” he explains.

“The next decision was to build a strong customer service component, which would be free and available 24 hours a day. We also made a decision to introduce low-cost handsets into the market.

These were the key decisions that formed the foundations of this company and the basis of our ultimate success. Although it took time for the market to understand that the per second billing was a much better proposition than per minute billing, it eventually turned out to be the right decision,” says Michael.

The relaunched network was to experience serious technical problems at the initial stages, forcing Safaricom to upgrade the equipment very quickly.

There was also the ever presence of a respectable competitor, who equally had a good network and the cash flow to match.

Safaricom had to deal with the teething problems posed by old equipment it had inherited. It had to build on what it had as opposed to the competitor who had the luxury of spending US$100 million (Ksh 6.6 billion) on a brand new network.

“The money we got from Vodafone was catering for everything from the new network, salaries and customer care shops. We had very little revenue then,” says Michael.

Comparing what he found in Kenya and Hungary which was his last posting before coming to the east African nation, Safaricom was a totally new experience for him.

“In Hungary we were the third mobile phone company to invest. There was already a mobile phone culture and it took six months to build a new network, boosted by shareholders who had deep pockets. This was unlike Kenya where we had to do with little funds and low levels of mobile phone awareness.

However, I learnt a lot of lessons in Hungary that I have found applicable here,” says Michael.

Contrary to the many skeptics and cynics, it took Safaricom only six months to relaunch. By July 2001, it had zoomed past its competitor, leaving a cloud of dust that has yet to settle down to date.

Seven years later, Safaricom has made inroads to the mobile telephony business and outgrowing the business of Telkom Kenya and Postal Corporation, the two siblings that came from the womb of KP&TC.

While Safaricom has grown into a Ksh 17 billion per year profit company, its mother Telkom continues to suffer malnourishment and is yet to get a suitable bridegroom despite the fact that it has gone beyond the puberty stage and its biological clock is ticking fast. All eligible bachelors have been turned away after failing to agree on the dowry price, contesting the age and suitability of the bride.

Future prospects

Today, Safaricom has maintained its high-octane growth momentum and shows no signs of relinquishing its top- drawer position, at the apex of Kenya's corporate heap.

With a subscriber base of 6.8 million customers, Safaricom's machine is still turbo-charged and is aiming to increase its penetration level to the 50 per cent level.

"It is difficult to predict where our future growth will be. I believe that we can, based on the fact that we now understand this market better, get 50 per cent penetration of the Kenyan market of 35 million people.

There is a possibility that Kenya will reach a penetration of between 16-17 million mobile subscribers over the next 4-5 years. Safaricom will definitely have the majority share," says Michael.

While the rate of growth in its subscriber base is expected to somehow slow down, it has yet to roll out to all parts of the country where there are people willing to spend money to have a mobile phone service.

Michael believes that the company's expansion has not reached its apex but may begin to do so as soon as Safaricom starts to run out of areas with customers who have sufficient cash to afford a mobile phone.

"The rate of growth must slow down at some point, especially when the company begins to penetrate the low income areas, thereby slowing down the revenue too and rate of profit," says Michael.

In a bid to counter the challenges posed to its penetration, the company is currently putting up generators in rural areas not covered by the power grid.

Safaricom has entered into an agreement with KPLC to enable it build a power line to the base stations, pay for it and then had over the line back to the power utility company.

In areas where there are no power grids, the company has installed solar and wind power, including two locations in Laisamis; where it has wind supplemented by a generator. In the Northern Coast of Kenya, Safaricom is operating on wind and solar with no generators.

Available figures indicate that during the entire seven year period, Safaricom was only able to have a positive cash flow two years ago, after successfully building its network and borrowing heavily to fund its capital expenditure. It has had to go into the market twice, in 2002 and 2004, to seek for funding to supplement the initial investment that was put in at inception.

In 2001, its turnover was in the region of Ksh 2 billion while the company made a pre-tax loss of Ksh 500 million. The first pre-tax profit was made in 2002, with turnover hitting the Ksh 10.0 billion level. The pre-tax profit levels rose to Ksh 5 billion in 2005, Ksh 12 billion in 2006 and Ksh 17 billion in 2007. (See table).

As at 31st March, 2007, Safaricom recorded a turnover of Ksh 47 billion, its shareholders funds standing at Ksh 32 billion. During this period, cash generated from operations rose from Ksh 19.3 billion in 2006 to Ksh 26 billion in March 2007.Now, the most profitable company in East and Central Africa is eyeing the stock market.

IPO

"We are not looking for more funds like other companies do in their initial public offer (IPO). It is the government that intends to list 25 per cent of its shareholding in the company to the public on the stock market and not Safaricom. It is a privatization process, where the part of the government's stake is being listed on the stock market.

I hope that it will happen before the end of this year. The process has begun; We are not going to have the proceeds from the IPO; it will only bring more responsibility to the company which now has to answer to more shareholders. It is onerous to be a public company. The advantage is that the public and subscribers are one. This is a fantastic marketing opportunity," says Michael.

With the government intending to raise Ksh 35 billion from the IPO, which is 25 per cent of the company, Safaricom's estimated value could be in the region of Ksh 140 billion.

Technology upgrade

In a bid to meet spectrum challenges facing it, Safaricom has been upgrading its network, including testing a 3G network, which it intends to launch soon.

"We have already tested the 3G network and we are soon rolling out a commercial version soon. This is on the belief that there will be a need for the service which we can then offer services like high speed data at 3.6 megabytes per second," he explains.

This next generation network will be expected to add more spectrum to Safaricom, enabling it offer additional voice services. With close to 60 per cent of the company's 6.8 million customers located in Nairobi, the spectrum challenges experienced in parts of the city may soon be a thing of the past.

“The company has a spectrum at 1800 and 900, which is not infinite. There are certain periods in the day when subscribers make calls simultaneously, presenting unique challenges to the company’s GSM network which was never designed to handle so many calls, from a large subscriber base at any one time.
Congestion is especially critical in downtown Nairobi, at certain times of the day- including just before lunch, in the afternoon or in the evening when everyone is driving home and makes a call while stuck in traffic. This is a challenge every mobile phone company in the world faces.
What 3G will bring is additional spectrum to create more space for voice calls by moving some subscribers from 2G to 3 G. There are no incompatibility issues since 2G is designed to build on 3G which is a completely new overlay network.”
Safaricom will be offering its subscribers the option of having 2G or 3G capable phones or one that can switch between both. It will all depend on the spending power of the subscriber and their needs.
“We are putting an initial investment of US$15 million on the new network and we have over 3,000 subscribers already using the 3G technology on pilot basis.”
While it was expected that Safaricom had reached its peak and was on the downhill, there are few signs of this. However, it remains to be seen whether Safaricom will keep its foot on the accelerator pedal amid the rising competition. With Safaricom’s Ksh 17 billion pre-tax profit, the company rakes in Ksh 48.7 million per day, figures that would make any CEO in Kenya breathless.

Michael Joseph- Safaricom’s CEO who wanted to be a vet

By Guchu Ndung’u
Had fate and the cruel yokes of inadequacy not intervened, Michael Joseph would have been a veterinary officer.
No wonder when he received news of his appointment by Vodafone to head Safaricom in Kenya, the Chief Executive Officer was ecstatic. Finally, a chance had come for him to visit Kenya and mix work and play by sampling the country’s world famous wildlife animals.
“But I never got to enjoy the wildlife for two years. The challenge was so high and the workload too much. I drove from the house to my office and back, for seven days a week arriving at 6.00am and leaving at 8.00 pm everyday for two years,” he recalls.
That is Michael Joseph for you, a man used to life’s unexpected twists and who whether by design or accident, through momentous decisions always come on top of even the most unexpected of all events. Surprising everyone, even himself.
Born in South Africa, Joseph studied for a Bachelor of Science in Electrical Engineering from the University of Cape Town despite his vet ambitions.
“I liked animals and the animals liked me too. Unfortunately, I did not have money for a degree then. Later on, someone offered me a scholarship to study in engineering,” offers the CEO who is married with kids.
After his studies, the CEO surprised many when he left South Africa to start life afresh in the United States.
“I left South Africa during the dark days of apartheid and went to America. I just left one day. It was very tough to start a new life in a new country where you did not know anybody and you had to restart everything.”
Since then, Joseph has been involved in the implementation and operation of large wireless and wireline networks, including operations in Hungary, Spain, Brazil, Peru, Argentina, Korea, United States, Australia and the Middle East before joining Vodafone in 1999, which manages Safaricom, forwarded him to Kenya to head Safaricom in 2000.
Back then, few would have recognized him, with his trademark white hair, scrubby beard and right to the point answers.
But currently the man is famous for not only leaving a huge smile on the face of shareholders, but also one of the few down to earth CEOs to make a honest and tidy buck and still answer his cell phone when you call.
Infact, a Kenyan blog dedicated to financial information has described him as ‘ a very cool CEO who is often seen riding in the front of his vehicle reading a paper in a country where even junior managers ride in cars with closed tinted windows, casting unfriendly glances at ordinary motorists.’
During the interview at Safaricom House, Joseph was a man at ease- clad in a white shirt and a dark tie though he constantly kept looking at his watch and checking the incoming messages on his 3G phone.
“My schedule is very tight and I have to keep time. That is one quality of a successful manager,” he justified his constant glance at the watch.
Despite the fact that he is easily accessible, personal information on his age and private life is still a no go zone area.
“I am old, very old. Let us just leave it like that,” he answers FP’s query on his age and family background during the interview.
While steering the company he has had comical moments with the public the most famous of all being the alleged remark that he made about Kenyans ‘peculiar’ calling habits.

But according to Joseph, his Waterloo almost came when he made ‘a fundamental’ error of rewarding subscribers with free airtime for being loyal to the company.
“I intended to give free airtime of Ksh 200. But something went wrong in the process, with some subscribers getting more than this amount, up to Ksh 800. Subscribers dashed to the network to dial 141, thinking that this was the way to get the free airtime. This was because whenever they dialled this number Ksh 200 was loaded on their phone.
Word spread like a wild fire in Kenya and everyone started dialling this number, leading to a jamming of the network for five days.”
Pressure came from all quarters and for the first time; Joseph admits that the criticism, especially from those that did not understand, was one of the hardest personal and corporate challenges he has had to face.
“I received so many calls and complaints insinuating that the network was not good enough. Even my competitors took advantage of the situation. What I thought was a good decision turned out to be disastrous,” Joseph, with a hesitant voice and a tone of regret, recounts. “I wanted it to be a pleasant surprise but it backfired.”
However, the experience taught him something he reckons cannot be learnt in any business school.
“I learnt that we should learn to communicate better with our subscribers and to think through the implications of the decisions you make.”
While most CEO’s spend months working on elaborate strategies only learnt in text books, Joseph offers the recipe for personal success in two things; hard work and integrity.
“If you are honest with yourself and with people around you, then you will be successful. You may not be financially successful, but you certainly will be successful in many other ways.”
Joseph was also once rated as one of the highest tax paying individuals, a position that catapulted the normally shy about his private life CEO in the public limelight and led to speculations on the depth of his pay package.
Did that mean he was the highest paid CEO? “I was very upset by that. If you look around, there are many other rich and successful people in Kenya and I am not one of them. I am just a salaried employee who lives a very humble life. The Kenya Revenue Authority made some mistake.”
With numerous awards in his cup including the Company of the year and CEO of the year, Joseph says the attention and praises have not changed him much and even refuses to take credit for ‘the ‘marketing genius’ tag that a publication had once given him.
“If I was a marketing genius, I would write a lot of books and be a billionaire. We came with the right product at the right place for the right market. I am an engineer and not a marketing person.”
When not running Safaricom, the CEO is contented with bush safaris and the countryside.
“I love the countryside and spend as much time as possible there. I have a home in Northern Kenya where I go to relax.”
This time, unlike five years ago, he can afford to take a rest and enjoy the wildlife. The systems to run the company, he says, are already in place.
“I have given up on the vet dream but… well…you never know,” concludes the CEO, as he stands up to usher in his next visitor, former Nairobi mayor, Joe Aketch.

An overview of the telecommunications industry

Reports released by the Planning Minister Henry Obwocha indicate that by the end of the 2006, Kenya had over 7.2 million mobile phone subscribers.
However, the road to such numbers is punctuated by intrigues as the two main players; Celtel and Safaricom try to outwit each other.
The real competition between these two can be traced back to the year 2000. For, in May 2000, the then Kencell was launched in Kenya after paying a cool $ 55 million (Ksh 3.6 billion) or Ksh 4 billion at the then exchange rate.
Safaricom was still a department of Telkom Kenya mired in bureaucracy, poor services, and lack of efficiency as was the norm in public institutions then.
The telecommunication die was cast. First, the mobile phone companies aimed at attracting new subscribers to their networks with each trying to pull every rabbit out of their marketing bag.
Safaricom sent the first message, however, when they launched a pre-paid service which was billed per second. It positioned this product as a common man’s product, letting subscribers pay only for what they could use.
This was in contrast to the one by the then Kencell which was per minute billing and was seen as elitist and locking out the ordinary folk.

Safaricom's move to launch a Ksh 100 scratch card also helped foster that perception. The tide was moving in Safaricom's favour until Celtel Africa acquired 60 per cent of Kencell at a cost of $ 250 million (Ksh 16.5 billion).
With the injection of additional capital, Celtel Kenya came in with marketing blitz, aiming at shedding off the elite tag.
It also launched Ksh 100 scratch cards and introduced per second billing.
As competition thickened, off-peak offers becaome the order of the day and many will recall with relish the weekends when Celtel's 'Furahi Day', which enabled pre-paid customers to call any network in Kenya for Ksh 11 from 6pm to 6am once a week on Fridays. On the other hand, Safaricom brought in 'Asante Sunday', where customers enjoyed up to 75 per cent discount on normal calls made on Sundays from 6am to 6pm.
Many customers, however, still complained of the high cost. In March this year, tired of this turf war between the providers, the Communication Commission of Kenya (CCK) revised retail and interconnection rates.
The interconnection rates came down from Ksh 50 to a rate not exceeding Ksh 30, inclusive of taxes.
Celtel took the first cue from CCK when it announced new calling rates under the Umoja and Uhuru tariffs.
Under Celtel's Umoja tariff, a customer pays a flat rate of Ksh 16 a minute when calling Celtel, Safaricom or Telkom, while Jamii tariff has a flat off peak rate of Ksh 12 a minute to any network. However, all calls are charged per second
Recently, Safaricom reduced the cost of calls to rival networks from a high of Ksh 50 per minute on one tariff, to Ksh 25 during off peak periods and Ksh 30 during peak periods.
The company also reduced the cost of text messages within the network from Ksh 5 per message to Ksh 3.50 during peak periods and Ksh 2.50 during off peak periods.
The reduction came two weeks before a Communications Commission of Kenya (CCK) deadline for telecommunications firms to lower their base charges for calls across networks (interconnect charges).
Though constantly at loggerheads, the two mobile phone service providers joined together to negotiate for an interconnection treaty with Telkom in August last year, which brought down to Ksh 10, the mount their customers pay when they call their competitor's number.
As their expansion became thin and in an environment where cheaper tariffs must eat into revenues, voice services are becoming more competitive and most viable regions covered, the companies are betting on bolstering their Average Revenue Per User (APRU) margins to stay ahead of the game.
One way to do this is to entice customers with value addition services and top among their targets are data services including E-mail and Internet services.
This year, the two companies have launched parallel money transfer services to rival remittance and money transfer companies in the country.
Safaricom led the pack with the launch of M- Pesa, and no sooner had the company launched than Celtel also launched their money transfer service termed as 'Soko Tele' in which they have partnered with K-Rep Bank and Packet Stream. Between March and June, the M-Pesa service had transferred over Ksh 500 million.
Just before the dust settled, Celtel unveiled an Africa's first when it also announced the expansion of its network to three more countries namely the Democratic Republic of Congo, the Republic of Congo and Gabon, nine months after, the company launched One Network for its East African customers.
A few months after the launch, Safaricom launched its own Kama Kawaida service in East Africa.

Challenges

The two operators now have to also cope with emerging competition especially from a reenergized Telkom Kenya, which has hit the market with its wireless phones, almost a replica of the mobile phone.
According to the 2007 economic survey, the telephone network capacity increased from 517,000 in 2005 to 534,000 which was attributed to the roll out of the wireless technology and licensing of 19 other local loop operators and if the LLO's and Telkom offer cheap rates with the convenience of mobility, mobile phone customers will be spoilt for choice.
Also, the voice market was also invaded in 2006 by Flashcom and Popote, the two local loop operators with an investment of over Ksh 1.6 billion.
Though both Safaricom and Celtel have launched the blackberry- a mobile service that allows users to, among other things; access secure E-mail, instant messaging facilities and data, they will, however, have to contend with the emergence of not only the local loop operators but also other Internet Service Providers top among them AccessKenya, which recently managed to raise Ksh 800 million in its just concluded IPO.
It intends to soon begin offering full residential broadband Internet solutions and increase the quality and value of Internet services.
Evolving technology, where Internet firms are able to offer calling services through the Voice Over Internet Protocol (VOIP) also portends a threat to the mobile industry as most corporate client may prefer to make calls through the Internet.
The coming of the fibre optic cable will also improve the services of ISP's who will in turn be able to give mobile phone companies a run for their money.

Safaricom, like all other players in the industry, including ISPs, is upgrading its network to be able to accommodate the 3G phones whose data capacity and features will be able to accommodate functions like mobile TV, internet, and other forms of download.

Electronic government takes new shape

By Jackson Okoth

Cabling of almost all ministry headquarters buildings in Nairobi have been carried out and are now internet ready, *The Financial Post* has established.

It is anticipated that when the terrestrial fibre optic cables are finally laid out and connection to these offices completed later in the year, this will push the quest for an electronic government to new levels.

The only missing link in this whole electronic chain will be the yet to be established digital villages in the rural areas, through which one will be able to log on and have online interaction with government ministries and agencies.

“We are in the process of digitizing all government records, including the AG’s office as well as the registry at the Lands ministry and the High Court,” says Information and Communications PS Dr. Bitange Ndemo.

Also, an exercise is ongoing to recruit members to an ICT board, which will work together with the e-government department at the Office of the President (OP) to co-ordinate the government’s effort and investment in the entire ICT sector, including the e-government project.

It is expected that Kenyans will soon be able to make applications for their driving license, identity cards, title deeds or passports among other documents online, significantly cutting down on the turnaround time.

Over the past few months, the government has increasingly leveraged on Information and Communication Technology (ICT) to meet and exceed public demand for better quality and faster delivery of services. In order to serve citizens better, the Government of Kenya is increasingly using Information Communication Technologies (ICT’s) to provide an alternative channel of service delivery.

A number of government agencies, ministries and departments have made significant efforts to digitalize their operations and provide online access.

For instance, installation of the Simba system-an online clearing software at the Kenya Revenue Authority-has led to improvement in tax collection and clearing of goods from the port of Mombasa, easing congestion and increasing efficiency at the port.

During the release of this year’s national examinations results for primary and secondary schools, the public was able to access the information via the SMS system installed at the Ministry of Education.

Recruitment to the public service is now done online through a computerized public service recruitment and selection system.

Further, there is now a website for information and downloads for all ministries, www.kenya.go.ke.

“There are other systems being developed and are about to be launched, including online declaration of wealth, a research inventory at the ministry of science and technology and the digitalization of the company registry. This is in addition to an email system which enables all civil servants to communicate with one another countrywide,” says Andrew K .Limo, senior public relations officer at the Office of the President.

All over the world, computers, mobile phones and the Internet are radically redefining the social, economic and political landscapes.

The emerging realities of a knowledge age is calling for a public service that is poised to respond to a rapidly changing society. It is the only way to remain effective and relevant. In some countries they refer to e-government as i-government (integrated) or r-government (responsive).

The Directorate of e-Government, a department in the Cabinet Office responsible for modernizing government services, started work in early 2004.

The launch was a deliberate demonstration by the Government that it was listening to technology. Since then, the strategy has been to harness the potentials of emerging technologies to provide effective and efficient services to the people.

These committees include, a Cabinet Committee on ICT that oversees the implementation of the strategy. Then there is the Permanent Secretaries ICT Committee, which coordinates the e-government initiative. Each ministry has e-government committees and ICT officers who review various ICT projects in their dockets, undertake audit of IT capacity and establish support to the ministry’s policy mandate. The Directorate of e-Government is headed by former university don, Dr Juma Okech, who is reputed for steering the use of ICT in Rwanda to great success.

These ministerial committees are required to identify gaps and inadequacies (both technical and institutional) and make appropriate recommendations on the way forward.

E-government brings a new citizen-centred public service reality. More and more services are now to be offered not over the traditional queues and counters, but rather through computers, mobile phones and other emerging technologies.

This change from traditional model of public service demands that civil servants be equipped with new skills. As they get empowered through training and sensitization programmes, civil servants will begin delivering online services, which means even when government offices shut, they still remain accessible round the clock to citizens who are technology savvy.
When the e-government project picks up, it will be possible to transact with the government over the weekends, at the comfort of one's own living room.
"The government is serving a public with increased awareness and expectations created by getting accustomed to faster services from private sector institutions like banks and are beginning to demand similar services from the government.
Also using technology enables the government to make huge savings in reduced costs of communication. Huge savings have already been reported in offices where email is becoming the order of day," says Limo.
The availability of Voice over Internet Protocol (VoIP), online messaging, teleconferencing, chat-rooms in the work place has meant that the government transforms the way it does business too.
And since the government is a new player, it is stepping onto the playing field without legacy problems, meaning since it is starting from scratch, it can be able to leap right into the new technologies without having to worry about a return on investment from old systems.
And with everything going wireless and online, the government will not only be listening to technology but also to the needs and expectations of the people.
The techno-savvy require services that are intuitive to their lifestyles. They are the generation whose phones do not ring as they are on email, SMS, chat etc.

The challenge for the government is to serve them using the technologies they are already familiar with. Since the people want a one-stop "whole-of-government" approach, the Directorate of e-government is now building websites that have one look and feel.
"Services are now being streamlined into gateways clusters to ensure a consistent, client-centred approach. As it is now, users of government websites have to labour through a mesh of information before they get what they are looking for," explains Limo. By organizing content according to topics rather than departments, civil servants will be thinking on a consistent and clear "enterprise mode". In short information should not be fragmented and scattered.
This calls for a new culture of working horizontally across government rather than vertically within ministries. This poses a challenge when it comes to resources since budgets are vertical yet services cut across ministries.
Successful implementation of e-government comes with a price. The said services must be secure and reliable. For example, e-commerce cannot take root without the deployment of trusted systems like PKI (Public Key Infrastructure).
PKI allows parties involved in a transaction to know the other party or parties and to verify that the information has not been altered during or after transmission.
Since the key to government going online is communication, nearly all civil servants will have email addresses. It is therefore clear that electronic government is quite different from industrial-age government, which was characterized by hierarchy, departmental silos, command-and –control, specialization of labour and rules based decision making.
"E-Government is a change management process, not a big technology project as some may want to view it," concludes Limo.

Firm eyes outsourcing training

By Guchu Ndungu
Sitting at his corner office on the 11th floor of Union Towers, John Nyagah, the Chairman of Wisemen Trainers and Consultants is an optimistic man.
This is because the college has invested millions in training of call centre agents in the fast growing Business Process Outsourcing sector hoping the industry will eventually take off.
The college, which occupies three floors in the building, has already trained over 25 students.According to Nyagah, the response from the firms in outsourcing and the students has been positive.
"Some of our students have landed appointment letters in call centers and are just waiting to start working," he says.
The five week training is costing Ksh 20,000 and targets secondary school leavers, call centre trainers, supervisors and managers at call centres. It is such sentiments that Wisemen's entry in the BPO scene is expecting to capitalize on.
Apart from five trainers in the call centre, the college has also structured the course into three categories to cater for call representatives, supervisors and managers.

The call center set up is aimed at secondary school leavers and degree holders with skills like touch typing, customer care, and other business process skills including data conversation, transcription, and video and audio clipping.
Supervisors and managers are also on the college's radar, which is also crafting a management course for them.Other areas of interest targeted by the college include training trainers of such centres.
"We have topics like operation management for supervisors and trainers eying management skills in the BPO centre," adds the chairman.
According to Nyagah, call centre training at Wisemen Trainers and Consultants was born out of working with other international organizations and in light of the country's growing outsourcing clout.
Prior to 2002, Business Process Outsourcing was an alien concept in Kenya, which has now grown to include over a dozen players employing close to 400 people. However, players in the industry have constantly complained over the high cost of bandwidth and training.
For instance when Skyweb- Evans, an outsourcing firm set up operations in 2004, they had to take some of their personnel in Canada for training. Out of the Ksh 12 million they used to set up, 60 percent went to training costs. Joe Kigara of Preciss, another BPO firm offers that poaching and defections have skyrocketed labour costs in the industry.
It is such sentiments that Wisemen is banking on.
However, the college has to grapple with challenges posed by students with heavy accents or have a problem in multitasking, a crucial quality for staff working in the outsourcing industry.
"Our training is geared towards minimizing if not eliminating, such handicapps. Overall, Kenya's students, due to their neutral English and thus best suited to work in call centres," opines Janet, who started her call center career at Bell Canada, a telecommunication company in Canada.
"It is more of a challenge that we are the first and the response has been very good. We are prepared to take this challenge," adds the chairman.
Started in 2004, Wisemen Trainers and Consultants has evolved from a consultancy firm to a fully fledged college and international education centre with over 300 students in various courses including Diploma, Degree and Masters Programmes.
"We have been registered by the Commissioner for Higher education to offer degrees such as Business Management and Information Technology which we do in collaboration with Limkokwing University in Malaysia and Institute of Technology Australia" offers Nyaga.
The Kenyan institution is aiming to hatch into a fully fledged university and in the next few years.
By the end of the budget speech this month, Nyagah was a happy man as the government zero rated building materials for organizations putting up universities and colleges in the country.
"The Finance minister's move of allocating Ksh 7.8 billion to Information Communication Technology for the laying of the fibre optic and digitization of the country and the zero rating of building materials is going to kick start to our growth strategy," says Nyagah.
Also, the instituion will have to grapple with competition from several training institutions like the University of Nairobi (UoN), Strathmore University and Kenya College of Communications and Technology (KCCT), Mbagathi.KCCT is being transformed to a fully fledged training centre for call centre agents while UoN is also about to roll out training very soon.

Second coffee window blamed for low prices

By **Antony Ndwigah**
The big question all coffee farmers in the country have been asking themselves is whether the introduction of the second window to sell their coffee is to blame for the low prices.
One year since the publication of rules to govern the direct sale of coffee to buyers abroad, things have not augured well for coffee farmers.
But Cooperative Development and Marketing Minister Njeru Ndwiga has cautioned farmers over the use of the second window, saying that it has led to low coffee prices.
Ndwiga says that the second window has led to the downfall of coffee prices since last year adding that marketers had taken advantage of farmers.
He wondered how one could be the marketer and the same time the milling agent saying that this had led to a conspiracy among leading coffee marketers in the country to swindle farmers.
He says that his ministry will fight to quash the introduction of the second window, adding that this will also lead to the gradual decline of the country's societies.
The rules were published in July last year to govern the direct sales of coffee to buyers abroad, paving the way for farmers to bypass a central auction where all Kenyan coffee has been traded since 1935.
Kenyan farmers have been demanding the introduction of the direct sales, also called the "second window", saying it would allow them to negotiate better deals directly with buyers abroad and remove a chain of middlemen who eat into their income.

Although the government had agreed in principle to allow direct sales, the implementation was delayed by failure to publish rules and regulations to govern the new structure.
The Minister of Agriculture Kipruto Kirwa bowed to the pressure and published the rules which would also oversee the exports of specialty coffee, officials said.
According to the rules, farmers will have to sell their coffee through locally registered marketing agents.
Marketing agents were to be licensed once they demonstrated ability to access overseas markets, conduct market research and must provide a bank guarantee to protect farmers' money.
The growers will instruct the marketing agent whether they prefer to export their coffee through the second window or the weekly auction which is not being terminated.
"The marketing agent shall reveal the price and agree with the grower for coffee sold through direct sales," the rules, published in a supplementary Kenya Gazette, stipulates.
The rules define the direct sales as: "a contractual agreement between the grower and the marketing agent and a buyer located outside Kenya for the sale of clean coffee."
Until now Kenyan law stipulates that all Kenyan coffee must be sold at a central coffee auction held weekly.
Supporters of the auction say it promotes competition and is a good way of discovering prices. But its opponents have long accused traders at the auction of colluding over prices.
The government has fears that the second window will lead to peasant farmers falling prey to conmen while existing farmer's institutions could collapse as farmers choose to sell coffee abroad to avoid paying past debts.

112.8million Kenya Re shares up for grabs in IPO

By **Samwel Kumba**
Approval for the long awaited Kenya Reinsurance Corporation's Initial Public Offer (IPO) has finally been granted and July 18 has been set as the date to open the offer. The price per share has been set at Ksh 9.50 with a minimum of 2,000 shares. That means one needs Ksh 19,000 to buy the shares.
The Capital Markets Authority (CMA) and the Nairobi Stock Exchange approved the IPO and the listing of Kenya Re-insurance Corporation shares at the Nairobi Stock Exchange. The offer opens on July 18 and closes on July 31 this year.
The government plans to sell over 240 million shares to the public which translates to 40 per cent of the company. According to the Minister for Finance Amos Kimunya, with the Kenya Re IPO, the government is charting new territory in a number of ways.
"First, we have identified the local insurance industry as a special group of investors with a specific interest in the success of Kenya Re and we have reserved a block of shares for them. This is in recognition of the fact that all insurance companies operating in Kenya are required by law to cede 18 per cent of treaty insurance to Kenya Re. As such, they have a vested interest in the company. We therefore felt that it was only fair to reserve 20 per cent of the shares on offer to them. This translates to 48 million shares set a side for them."
Unlike in the past, the government has decided to clearly define what institutional investors are as opposed to categorising all corporate investor as institutional investors. Therefore, we defined Qualified Institutional Investors as fund managers, investment advisory firms and pension funds as defined by the CMA and Retirement Benefits Authority Acts. We have reserved 30 per cent-a total of 72 million shares- on offer to this group", says Kimunya.
Also 3 per cent-7.2 million shares-of the total issued shares have been reserved for the corporation's employees while the remaining 47 per cent (112.8 million shares) is open for the public.
This means that a paltry 56,400 Kenyans (or 1 in every 620 Kenyans) will become new shareholder of Kenya Re from the general public if the 2,000 share minimum holds. However, if history is anything to go by, all IPOs in Kenya have often been oversubscribed including the recently issued AccsssKenya which had a minimum requirement of Ksh 50,000. So the likely scenario will be an allocation of shares, most likely less then 1,000.
Again for the first time in the history of IPO's in Kenya, a system known as Delivery Vs Payment (DVP) will be used for Qualified Institutional Investors. This allows the institutions to hold off payment until the allocation process is complete, thereby paying only for the actual allocated shares. Kimunya argues that this system eliminates the expenses of processing refunds.
The minister explained: "The initiatives will allow a broader investor base in this IPO. I know that large investors such as the NSSF and other fund managers, who cater for the pensions and collective investment vehicles for millions of Kenyans, will be able to buy more shares. This translates into benefits for all Kenyans, as these institutional investors will be in a position to further diversify their portfolios and therefore meet their obligations to all Kenyans."

Trading in Kenya Re-insurance at the NSE is expected to start on August 27 this year. Established in 1970, Kenya Re is the largest reinsurance company in Kenya operating in over 41 countries across Africa, Asia, Europe and the Middle East.

Approximately 40 per cent of its revenues are derived from international operations. The Corporation has a strong asset base of Ksh 11.3 billion and is currently commanding over 21 per cent of all domestic re-insurance premiums.

The Corporation is rated B+ (Very Good) by A. M. Best, one of the oldest, most recognized and respected rating agencies dedicated to the insurance industry worldwide. It has reported considerable growth in gross premium income, from Ksh 1.3 billion in 2002 to Ksh 3.03 billion in 2006 from which it made a pre-tax profit of Ksh 647 million.

Said Kenya Re Managing Director Ms Eunice Mbogo, “This approval by the CMA is a significant step in our desire to be a publicly quoted company. We feel that we have reached a crucial stage in our growth and it is time Kenyans participated in the next phase of our growth and profitability.”

The lead advisors to the transaction are Dyer & Blair Investment Bank in consortium with PKF and QED. Hamilton, Harrison & Mathews together with Rachier & Amolo Advocates are the legal advisers, Price W aterhouseCoopers are the reporting accountants, Kenya Commercial Bank is the registrar and receiving bank while Lowe Scanad Kenya is marketing the issue. CFC Financial Services and Standard Investment Bank are lead sponsoring brokers while Suntra Investment Bank is the sponsoring broker.

Kimunya maintains that one of the government’s main objectives in offering Kenya Re shares was the fulfilment of its privatization objectives, which among others, will allow Kenyans to participate more in the running and ownership of state owned corporations.

In business with confidence

By Mwangi Maingi

Neither Chris Kinuthia’s millions nor his modesty stands him out; many possess even more and Kenyan musicians do the latter even with a less than six-digit figure income.

Rather, it is his innovative ways, the daring means through which he has pursued his dreams and the entrepreneurial strategy he applies to initiate his childhood interests to a multi-million Information Technology (IT) company, Globefinity Systems Limited.

The company, incorporated in 2005, boasts of its competence in website page design, web animation, Email marketing campaign, Emai hosting programming, Internet marketing and facilitation of Online Credit Card payment among other services.

“In addition, we have business outsourcing services supported by shared services and transaction centre, built on the foundation of our secured technical infrastructure,” says Kinuthia, the proprietor and Chief Executive Officer of Globefinity.

“As an entrepreneur, one should be more concerned with discriminating between opportunities than he or she is with failing to see the opportunities,” he tells *The Financial Post* at Globefinity’s headquarters in Milimani. Maybe those are words that Kinuthia might have carried along with him since his life as a student in Alliance High School. His ability to compute programmes at high school level, could not miss the interest of the school management, hence, he left the school as the Computer Club chairman.

After high school, Kinuthia enrolled for a Diploma course in IT at Diamond Systems College, where he strengthened his programming skills and other areas in IT.

He initially started as an IT consultant while still at Jomo Kenyatta University of Agriculture and Technology (JKUAT) taking Bachelor of Science in IT. His major achievement while still in campus was designing the university’s payroll, which they use even today.

With time, Kinuthia was getting many projects after campus and though he was on the waiting list of many IT companies as their potential employee, he had to choose between the clients he had served while in campus and the new job offers.

“I choose to go on with serving the clients as it is best for an opportunity-focused entrepreneur to focus more on the customer and the market in mind,” he reveals.

According to the entrepreneur, it is normal for every start-up to live in an uncertainty and imaginary frame of mind especially in a market characterised with vast number of players.“Access to capital for expansion was a challenge especially since I had just left campus and hence was unable to raise collateral to secure capital,” Kinuthia observes.

However, Kinuthia says he believes in facing the challenge and winning and with dreams of making Globefinity, a one-stop-shop for IT services, he has zero option but to face the challenges if the business is to grow.

“To start with, one must have a saving culture and discipline. For example, with the little money I earned from consultancy services, I managed to save and hence was able to raise capital for the business,” he says.

High cost of infrastructure was also a major challenge. Kinuthia pointed out that the current cost of Internet connection is too high, for most of IT start-ups. He, however, says the ongoing laying of the Fiber Optic Loop will reduce the cost of connection, improving the expansion of IT businesses.

To encourage the venture, Kinuthia urges the government to modify the policy from encouraging mass production industries to IT-driven sectors.

“The government, through Telkom Kenya, should lower Internet connectivity charges and speed up connectivity by encouraging more players as is currently happening. This will lower the cost of Internet thus bringing more outsourcing jobs to the country.”

The company has so far managed to list high profile clientele including local universities, Non-Governmental organizations, foreign embassies, government departments and tour companies.

Kinuthia, who is currently pursuing a Masters degree in Business Administration, says with sanguinity that the future of entrepreneurship in the country is “full of possibilities.” “This will happen if enterprising culture is nurtured from a young age and relevant role models are celebrated. Budding entrepreneurs should also be supported to develop growth-oriented businesses that provide a credible alternative to employment.”

He routes for confidence as the sure route to entrepreneurship.

“If you think you are beaten, then you are. Success begins with the will to succeed. It begins in the mind,” he concludes.