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**No longer sinkholes  
 Top dividend paying parastatals**  
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**NSE: Worst performer in Africa**

**By Staff Writer**

The Nairobi Stock Exchange is rated the worst performer during the first half of this year, in terms of index return. It is the only bourse to have posted a negative rate in the continent, says Databank Group in its half year- review of the African Stock Market.

The local bourse posted a negative seven per cent (-7) in shilling terms but a positive 1.7 percent in US dollar terms. This still places the stock exchange at the bottom of the table in terms of 15 African bourses surveyed. This is a drastic decline from the end of last year where the bourse was the sixth best performer in the continent, posting a 41 per cent return in US dollar terms.

The leading bourse, in terms of Index performance, is LUSE of Zambia which posted a whopping 97 per cent return in Dollar terms. It was driven by, says databank Research, a healthy local appetite for equities. The strengthening Kwacha, which was buoyed by strong exports of copper and private capital in flows, also drove the LUSE's performance.

The other star performers in the top five are; Malawi which posted a 79 per cent return, Nigeria Stock Exchange (65.1), Botswana (57.44 per cent ) and Ivory Coast's BVRM at 46.05 per cent

Kenya is ranked with bottom five worst performers in Africa including; Ghana, Tunisia, South Africa and Uganda. Incidentally these were the best performers of last year.

Analysts say that NSE's perceived poor performance is a result of a number of factors among these are; share splits, market correction, and an outdated index.

The NSE-20 Share index, its performance measure, is outdated and does not capture the actual activity in the market.

The number of blue chips has now risen beyond the 20 captured in the index, which was promulgated in 1966, 40 years ago. New power packed entrants, who drive activity at the bourse, such as Equity Bank and the giant power generating company KenGen are not captured in the index.

The NSE is said to have recognized this weakness and is working on a new all inclusive index. Those excluded are KenGen, Equity, National Bank of Kenya, Kakuzi and CFC bank, which is set to become the fourth largest bank in the country.

Apart from a faulty index, the NSE also experienced several share splits in the market last year which may have affected the index performance. Among the stocks that split are KCB, ICDC I, East African Cables and Barclays Bank. KCB at the close of last year was selling at Ksh241 before the split. After the split, the share price fell to Ksh Sh24. Similarly, EA Cables before the split was retailing at Ksh 450 to Ksh 500 a piece, after the split, it shrunk to Ksh 48.

When the NSE opened for trading this year, the index hit an all time high of 6000 points but has since declined to the 5000 points range, where it is still oscillating at. This decline has been attributed to a correction in the market. By the close of trading on in the second week of this month, the NSE 20 share index lost 69.4 points and settled at 5095.7 points from 5165.1 points the previous week.

The anticipation of new IPOs has also depressed the market as some investors, probably held to their funds to sink in the IPOS such as Kenya Re and the anticipated Safaricom IPO.

Another explanation for the depressed activity at the NSE has been the disruptive activity of retail investors at the bourse, who have engaged in panic selling activity whenever the price of a share dips.

A case in point is the Mumias Secondary share issue that was conducted at the close of last year. When this share, which was retailing at Ksh 40 per share opened for trading, its prices failed to pick up leading to a panic selling. While some punters were able to exit, many were trapped on the trading floor and got their fingers burnt.

This research group says that while Kenya's economy is sound and should support some earnings surprises, much more correction is required to make the market a very attractive place again.

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It is now anticipated that the present trends at the NSE will continue in the second half of the year with a number of public issues in the horizon expected to inject spells of dynamism into the market.

Kenya Re IPO is already running with the market holding its breath for the Ksh 35 billion worth Safaricom IPO, billed as the largest in the East Africa region.

After delays and postponements by the treasury as well as a late court case, the Kenya Re IPO is finally on, with investors expected to rush back to the bourse come the end of the month of July. Others are still position for the Safaricom IPO, with the treasury seeking for a lead transactional advisor to lay down the building blocks for this IPO.

Performance at the NSE has also been clouded by the recent closure of Francis Thuo stockbrokers, one of the oldest players in the market, with the bourse suffering a serious image problem.

Databank group puts shilling return in the year to the end of June at -0.10 per cent while in U.S. dollar terms, it is 0.93 per cent due to significant appreciation of the Kenyan shilling against the dollar.

This report concludes that the prevailing macro-economic trends in Kenya favour robust economic activity and banking. However, this is not reflected in the pricing of listed equities most of which have rather high valuations.

Looking ahead, Databank projects that laggards will continue weighing down the index heavily. It also concludes that the share prices of banking stocks such as Kenya Commercial Bank and Equity Bank Limited are expected to rise on the back of investor interest in these stocks whose fundamentals are appealing.

Meanwhile, the report projects robust economic performance across the continent in the second half of the year and GDP growth this year could reach 6%. Continued economic reforms, strong Commodity prices and growing confidence of foreign investors in the continent's prospects are some of the factors that will propel growth.

The main risk is rising oil prices that may put upward pressure on inflation and interest rates in several oil importing countries.

However, with reforms implemented over the years and improved foreign reserves in several countries, many of the economies are in a position to handle such exogenous shocks better than we saw in the past. The markets themselves on average are likely to consolidate gains made in the fast half though in general we expect a less bullish performance in the second half.

Expected choppy performance in index heavyweights Nigeria and Egypt may, however, reflect in a drop in the Africa Index in the second half though most of the markets should remain in positive territory.

## Parastatals turn around, pay dividends

### **By Staff Writer**

Commercial State owned Enterprises, commonly called Parastatals, have turned the corner. They have metamorphosed from sinkholes for public funds to contributors to state kitty.

In the last three years, some 21 parastatals have paid a whopping Kshs 8.5 billion in dividends to the treasury.

For the fiscal year 2004/5 total dividend paid stood at Ksh 750 million. This improved to an impressive Ksh 2.027 billion the following year before leaping to Ksh 5.64 billion for the fiscal year 2006/7.

For 2007/8, though tabulation is not yet complete, things look bright if the contribution of a few companies so far is anything to go by. For instance Safaricom has already publicly declared that it will pay Ksh 4 billion in dividends from which the government is likely to get Ksh 2.4 billion. This is, however, subject to ratification by the shareholders at a meeting to be held soon.

The largest payers last year were; Central Bank of Kenya (CBK which paid out Ksh 2 billion followed by KenGen at about Ksh 1.5 billion while Communications Commission of Kenya (CCK) was third with about Ksh 600 million.

Kenya Commercial Bank, the former sick man of the banking industry, has recovered and is also doling out large dividends to the treasury. Last year, it paid some Kshs 209 million which has already gone to Kshs 314 million this year. In 2005/06 it paid Kshs 170 million. Kenya Airways also ranks in the list of top dividend payers having paid Kshs 132 million in 2005/06 and Kshs 185 million a year later.

The turn around has pleasantly surprised the finance gurus at the Treasury. The story is told of a call to the PS treasury from a parastatal chief. Fearing the man is pleading for some handouts, the PS reluctantly received the call only to be surprised when the voice at the other end, wanted to know when the PS can receive the dividend cheque.

The turn around is attributed to robust general economic performance in the country and good management of the corporations. The point being put across, analysts say, is that with good management, parastatals can turn in a profit and wean themselves from the begging bowl culture.

The managers themselves concur. KenGen Managing Director, Eddy Njoroge, agrees that the improved dividend was due to better trading performance buoyed by several factors including higher unit sales, improvement in operational efficiency and good hydrology.

"Going forward we can only expect better results and improved dividend. The company's efficiency is being enhanced, the sales are expected to be higher (as demand rises), the hydrology is good and reversion to a higher tariff of Ksh 2.36, all point to a higher yield," explains Njoroge.

Not all state corporations however, are paying dividends even though they are profitable. One such corporation is Post Bank. Asked why they are not paying dividends, Post Bank Managing Director Nyambura Koigi said that they are building a reserve.

She explains: "We are profitable but we are creating a reserve specifically for restructuring purposes. Currently, we have about Ksh 1.5 billion in reserves. We believe that the government, which wholly owns us, will decide at its opportune time, how and when we can be structured using the reserves we will have accumulated."

She confirms that whatever Post Bank has even as profits and the reserves all belongs to government. *The Financial Post* has since established that Post Bank is currently in discussion with the government on the way forward.

"Ideally, we should be paying dividends but because of the ongoing negotiations, we are keeping the proceeds. But we are not funded by the government for we are self sustaining and profitable," explains Nyambura.

The government has already done a study regarding the eminent restructuring of Post Bank but the report has not been fully discussed and Post Bank is still waiting to be updated on the findings.

The Minister for Finance Amos Kimunya confirmed the Post Bank's position arguing that most of the parastatals are profitable and can pay dividends.

"Some like Post Bank have not got the green light from Treasury to do so due to the impending restructuring programme," explains Kimunya.

Explaining why Housing Finance did not pay dividends in the financial year 2006/7, the PS to Treasury clarifies that Housing Finance is still profitable but because they are in discussion over some issues, the dividends has not been paid.

If anything, Kinyua adds, the government's interest in Housing Finance is very minimal.

### **Privatization**

Asked whether the turn a round could slow or even stop their privatization, Kinyua was categorical that the privatization process is on course, arguing that

Kenya Commercial Bank (KCB), in which the government has sold some of its shareholding, was not paying dividends when it was wholly state owned.

But as it was evidenced late last week, the government received a fat cheque of Ksh 314.6 million in dividend up from Ksh 209 million and Ksh 170 million paid in 2005 and 2006 respectively, a reflection of the bank's good performance and business growth.

Kimunya believes that parastatals now have more operational autonomy with little interference from the government. This has enabled them to make informed decisions.

"State parastatals are now sharing their returns with Treasury. This is contrary to the past when they were all being looted and they would have nothing to share with Treasury and instead were a drain.

They would seek funding from treasury those days, instead," explains Kimunya.

He regrets that previously parastatals were used as avenues for transferring public money into pockets of a few connected individuals, arguing that, today that is no more. Parastatals' operations are now better with efficiency and being the Mondus Operandi.

"What we are currently paying is not to parastatals per se but to services rendered through some parastatals in some critical areas," Kimunya explains.

## **The shilling likely to appreciate further**

### **By Jackson Okoth**

The Kenya shilling is likely to appreciate further as we head towards the end of the year.

A weakening US dollar, increased foreign interest in the Safaricom IPO and a gradual rise in interest rates on the 91-day Treasury bill is set to strengthen the Kenya Shilling further in the coming months, dealers and investment managers say.

"Except for unforeseen events, we expect the shilling to trade within the present ranges," says Edward Gitahi, an investment manager with AIG Global Investment Limited.

In recent weeks, the dollar has weakened on concerns that the troubled US housing sector could spread into the wider American economy.

Analysts say further that, the greenback is also being pressured by speculators betting that the US currency may fall further and that the Federal reserve may lower interest rates later this year.

Others sentiments and push factors driving the strong shilling are increased remittances from Kenyans in the diaspora and inflows from traditional foreign exchange earners, including tourism, tea, coffee and horticulture.

Over the past year, the Kenya shilling has appreciated against all other major world currencies. Statistics show that during the second half of last year, it has appreciated rapidly, rising from Ksh 69.63 in December 2006 to the Ksh 67 range in May 2007.

At the opening of the markets on Monday last week, commercial banks' average exchange rate for the shilling against the dollar was Ksh 66.75, the local currency buying at Ksh 66.6578 and selling at Ksh 66.8544 against the greenback.

This appreciation has exporters casting a wary eye at its growing strength and monetary authorities keeping off from any direct intervention. Exporters complain of earning less shillings from the merchandise exports.

Importers on the other hand are smiling all the way to the bank as the cost of imported inputs decline in shilling terms. Topping the list of beneficiaries is the energy sector, especially Oil importers. These have been cushioned from high price shocks by the strengthening shilling. The price of crude has already overshot the US\$73 a barrel mark.

The manufacturing sector too has had its good moments, with key importers of capital goods and machinery smiling as costs decline.

It is also becoming cheaper to finance overseas education as Parents now spend fewer dollars to pay the cost of education per year.

The Treasury too is having a ball due to a weak shilling that has wiped out a large chunk off Kenya's foreign debt. For instance a strong shilling wiped Kshs 22 billion off Kenya's external debt in the first three quarters of the 2006/07 financial year.

The local currency is also riding on the increased inflows in the capital and financial accounts at the Central Bank of Kenya. Kenyan living abroad are also boosting the kitty with remittances estimated at over US\$ 500 million per year.

Available figures indicate that that CBK's capital and financial account improved to a surplus of US\$ 1,801 million in the year to March 2007 compared with a surplus of US\$ 895 million a year earlier due mainly to an increase in private short term capital flows by US\$ 1,312 million.

While the shilling has been gaining strength, the CBK has also been stockpiling dollars to boost its strength further.

By the end of April this year, official foreign exchange reserves with the Central Bank increased by US\$ 564 million from US\$ 2,120 million (4.4 months of imports cover) at the end of April 2006 to US\$ 2,684m (4.5 months of imports cover) at end of April 2007.

Given all these strong fundamentals, the shilling is unlikely to weaken anytime soon, analysts say. Only unforeseen political events, including extreme violence could weaken the shilling. However the chances extreme violence exploding in the run up to the election are, remote.

"We expect the shilling to play within these ranges and could even strengthen further given that the interest rate on the 91-day Treasury bill has bottomed out and therefore unlikely to put pressure on the shilling," says Gitahi.

In the recent past, the treasury has hinted that the shilling might weaken as the government rolls out its heavily capitalized road repair and rehabilitation program.

However, dealers and investment managers feel that the government's expenditure on capital equipment will have to be significant and sustained for it to have any impact on the shilling.

## **Kenya the leading Eastern Africa exporter to the US**

Kenya maintains her dominant position as the leading Eastern Africa exporter to the US under the provisions of the African Growth and opportunity Act, Agoa.

According to the US International Trade Commission, USITC, Kenya bagged the most exports to the US between January and May this year, bagging some US\$122.3 million.

This figure is 6.8 percent lower than last year when she bagged US\$131.2 million earned over the same period last year.

Kenya trails Lesotho among African exporters who have appear to be recovering from the shock of the Chinese entry into the world textile market. Both lost when Asian textile manufacturers fled in 2005 fearing Economic ruin.

Kenya's export earning shrunk to \$348 million in 2005 from \$352 million in 2004. In 2006, exports earnings rose to \$353 million. This year they appear to be geared for further decline if the trend so far is anything to by. Kenya has earned \$122.3 million in the first five months of the year.

Lesotho suffered the greatest loss of the two when her exports shrunk from \$467 million in 2004 to \$403 million in 2005. Last year, her exports rose to \$409 million. Madagascar is yet to recover from the loss suffered by her peers. In 2004 she was the leading African textile exporter to the US under AGOA, pocketing some \$469 million. This has now shrunk to \$281 million in 2006- a 40 per cent decline in two years.

There are huge earning gaps between the early starters and the slow starters. For instance, Kenya, among the early starters, is way a head of her neighbours in Eastern Africa and even with the East African Community Zone.

While Kenya earned \$352 million last year from textile exports, her nearest rival, Ethiopia earned only \$81million in Agoa exports. This is a ratio of 1 to 4, meaning that Ethiopia exports 25 US cents for each Dollar of Kenyan exports. Ethiopia's exported \$32 million worth between January and May this year. Kenya earned some \$122.3 over the same period.

Ethiopia is slightly better off than Uganda and Tanzania, which earned \$22million and \$35 million respectively. Both have exported \$11.7 million and \$18 million respectively between January and May this year.

For the third year in a row, Africa's Exports of crude oil and metals to the drove the growing trade between Africa and the US under AGOA.

According to the US international Trade Commission, African Exports to the US market rose by 19.2 per cent last year down from 37 per cent in 2005. Exports to the US under AGOA, the African Growth and Opportunity Act, grew to US\$56 billion in 2006 from \$47 billion in 2005, says US International Trade Commission.

Oil exporters have continued to reap more while textile exporters are crying. Although exports in 2006 shot up to US\$56 billion, growing by 19.2 per cent over 2005, the growth is driven by commodity exports by just five countries namely Nigeria, Angola, South Africa, Congo (DROC) and Gabon. These five earned a whopping US\$53.1 billion or 95 per cent of the total earned from exports to the US. In the period January to May 2007, the five Countries have pocketed nearly 90 per cent of all exports earnings to the US. They earned \$22.3 billion out of total \$24 billion all African exports earned over that period.

An analysis of the earnings gap between Oil exporters and manufactured goods exports shows that the gap is rapidly widening. Two years ago, Oil exporters earned four dollars for every dollar exported by the non-oil producers. Last year, the gap shot up to \$15.3 for every dollar worth of manufactured exports. This was mainly due to high crude oil prices buoyed by high demand in China and India

The report shows that even though exports grew to US\$56 billion in absolute terms, the rate of growth is slowing down. For instance, earnings from export to the US grew by 37 per cent between 2004 and 2005 but shrunk to 19 percent last year. This trend is repeated in slowing down of the rate of growth in individual exporting countries.

For instance in 2005 Nigerian crude oil exports earned \$23.9 billion a 147 percent growth over the \$16.3 billion earned in 2004. This rate slowed to 117 per cent in 2006. According to the African Economic Review 2007 published by the UN Economic Commission for Africa, this slow down also slowed down Nigeria's economic growth from 6.0 percent in 2005 to 4.2 percent last year. ECA blames the slowdown on unrest in the Delta region which produces the bulk of Nigeria's crude oil.

Other countries that suffered due to a slowdown in Oil production included Chad whose export earnings grew by 129 percent to \$1.9 billion down from a growth of 211 per cent in 2005. Gabon posted a huge 54 per cent decline in oil production due to technical problems in oil drilling.

Angola, which earned \$11.5 billion last year compared to \$8.5 billion in 2005, also posted a slug in oil production

## Finally, Econet enters Kenyan market

**By Guchu Ndung'u**  
**and Musyoka Wakendo**

The final hurdle in Econet Wireless International's dogged determination to enter the Kenyan market has been buried.

Last Friday, the company and the government entered a comprehensive legal settlement through which it withdrew all suits against the government.

The government, for its part, allowed the company to commence preparations to roll out. This means that Econet wireless could hit the airwaves by the first quarter of next year given that the government has reinstated the license it had once rejected.

The new agreement also grants Econet Wireless 70 per cent stake in the new outfit up from the initial 11 per cent. Now, only 30 per cent is available for local investors. Two per cent of this has already been taken by Corporate Africa, leaving 28 percent up for grabs.

The company had paid some \$15 million(Ksh 990 million) of the \$27 million(Ksh 1.7 billion) deal and now the government has demanded that the company pays up the balance of US\$12 million(Ksh 792 million) before it can begin rolling out.

The end of the road for the hurdles began two months ago when the government suggested that it will remove the 30 per cent rule. That rule required foreign investors into the country to get local partners to the tune of 30 per cent.

A number of legal wrangles, over the last four years, have frustrated Econet Wireless' efforts to set up the third Cellular phone operation in the country.

EW (K) won the license for the third mobile phone company in 2003 but has been unable to set up shop because of wrangles in court with her partners and later with the government.

Econet wireless was declared the winner of the third Mobile Phone operator license by the High Court sitting in Nairobi in 2005. But it has since been unable to set up shop owing to political meddling and court battles.

Not that EWI needed the high Court to win the battle. It won the bid late 2003 and was expected to be operational by the second quarter of 2004.

The firm, together with her Kenyan partners, were declared winners of the third GSM license in 2003. However, a losing bidder, the Kenya Telecommunications Investment Group went to Court seeking to overturn the license issued.

KTIG introduced confusion in the bid when it filed complaints both with the Public Supplies Appeal Board and the High Court.

The appeals board refused to hear the appeal as a suit had already been filed in Court. However, it was overtaken by events since another Court has already named the EWI led Consortium the winner.

Apart from the KTIG suit, Econet had to contend with a suit filed by one of its partners seeking to nullify the license. The local partner, Kenya National Federation of Co-operatives, KNFC, was to be the majority shareholder in the local operation.

However, it failed to raise the money needed hence its bid to derail the licensing. Econet Wireless had already paid some US\$15 million out of the license fees worth US\$27 million.

This was way beyond EWI's shareholding, originally set at just about 11 per cent. The amount the firm has paid is more than 55 per cent of the license fees.

The disagreement arose when KNFC was asked to sign a new memorandum of understanding in which EWI was to be the majority shareholder. KNFC was reluctant and went to court.

However, the court found that KNFC misled it by hiding some information from it. The Judge therefore dismissed the suit and named EWI, the third GSM operator in Kenya.

Ironically, the suit by KNFC may have given EWI what it wanted from KNFC by default- a majority stake in Econet wireless Kenya. Since KNFC was declared a partner right from the beginning of the bid, Econet wireless became the principal shareholder in the Kenyan firm. KNFC had told the court that it was in no way involved in the bid, a claim that was dismissed by the High Court.

This settlement clears the political and legal hurdles for EWI's entry into the Kenyan market.

And the company, which two years ago shelved a US\$75 million rollout plan in Kenya will be free to dust it plan and roll-out its network.

Kenya is the fastest growing Mobile telephone market in Eastern Africa. Although a late entrant in the GSM technology compared to Uganda and Tanzania, Kenya has already beaten her neighbours in terms of subscriber numbers. Kenya already boasts an estimated 8 million subscribers in just six years of operation.

By the end of last year says, the Central Bank of Kenya's Monthly Economic Review for the month of May 2007, there were 7.3 million subscribers, up from 5.2 million subscribers at the end of 2005.

This represents a 40 per cent growth in one year. Using the same logic, analysts say, the subscriber base is now estimated at 8.8 million subscribers and is expected to hit ten million by the year's end. This figure, analysts say, does not include the new entrant Telkom wireless she entered the market late in the last quarter of last year. This means that by the end of this year when Telkom is expected to be a major player in the local telecoms market, the numbers could exceed 10 million by far.

This begs the question: is Kenya over connected? Ten million out of a population in excess of 34 million is little. At the current subscriber rates, teledensity is just about 25 percent, meaning that one out of every four people has a phone. By the end of the year, the ratio will rise to 30 percent. This means that an estimated 70 percent of Kenyans will not be covered by a telephone line. The market is huge and it can accommodate one or more players.

This means that Econet Kenya will find a market ready for the taking. The question is the strategy to employ.

The growth in the GSM sub-sector is attributed to the no-frills pre-paid system. Here subscribers just walk to a shop, buy a phone and a SIM card and they are on phone a few minutes later. No forms to fill and no physical address required. This is why cell phones are pretty popular with the informal sector.

# Kenyan companies invent ways of trading online

**By Guchu Ndung'u**

Faced with an infant online payment infrastructure and a non-existent legal framework, Kenyan companies are innovating and coming up with various avenues to cash in on the online boom.

Many are opting to outsourcing their payment systems and using faxes among other unconventional but legal ways to survive.

For currently, electronic signatures are not recognized within the Kenyan legal system but are widely used in international e-commerce.

Also commercial banks have been slow to put in place payment systems that allow for instant online payments. Citing the lack of infrastructure and an ambiguous legal system, Kenyan banks do not accept instant online payments systems and transactions normally take days to clear.

Even last week, Madison Insurance managing director Frank Muchiri when introducing the company's newly launched website to guests, who included Information minister Mutahi Kagwe, lamented he problem.

The company, despite having an interactive website that included a live chat with customers and provisions for downloading documents like claim forms could not carry its functions comprehensively.

"Our clients cannot electronically sign for the downloaded documents and immediately E mail them to us. This problem needs to be addressed bwana waziri," he said.

There are over 1.1 billion internet users world-wide in sectors like tourism. Business worth an estimated US\$70 billion (Ksh 4.6 trillion) is online in travel sub-sector only.

For instance, in the United Kingdom, which accounts for huge chunk of tourists who visit Kenya, 17 million of its holidaymakers expect to book all or part of their 2007 holiday on the Internet.

To tap in that market, Alfred Muigai, the proprietor of AfricaPoint, an online tour agency, for instance says that the fax machine and a promise of confidentiality is his *modus operandi*.

After clinching a deal online, his client have to fax their credit card details, which he then takes to his bank in Kenya for the money to be transferred to the company's account.

But the idea of faxing your credit card details to a firm across the Atlantic does not auger well for many prospective tourists who want to visit the country.

"They can prefer to book elsewhere instead of taking such risks. Also, the process is cumbersome and negates the spirit of online transactions," adds Muigai.

There also the risk of credit card details being faxed to the wrong hands.

Credit card clearance and payments for instance at the Barclaycard, takes five days.

Njoroge Muiruri Chief Executive Officer of Wide exports limited, an online artifacts export company navigates the online payment hurdle through a working relation with 2checkout.com, a US based online distribution and E-commerce center.

The US based company accepts money from a client's credit card deducts its own percentage and remits the rest to the Kenyan company.

"The commissions eventually make our products more expensive and thus less competitive in the international market," says Muiruri.

Customers are also shuttled from the Kenyan company where they were shopping for the goods to the paying website, a situation that 'some do not like.' Having a branch in the developed countries is the way to go for some especially outsourcing companies aiming to explore new markets and receive payments. Of course this means an increase in the cost of operations.

"Once M-Pesa is launched to markets in Europe, it will further assist Kenyan companies to do business in those countries," adds Paul Kukubo, the managing director of 3Mice Interactive Media, an IT company which has designed websites for corporates like Kenya Airways and Madison Insurance.

The M-Pesa service uses mobile phones to transfer monies from one location to the other and since its launch in Kenya in April this year, over Ksh 500 million has been transacted within the country.

Safaricom plans to roll out the services in Europe later this year through Vodafone, a United Kingdom based Phone Company which also owns 40 percent of Safaricom. Customers will be able to buy Kenyan goods online and pay using mobile phones.

In bulk transactions, the expensive wire money transfer system is mostly preferred.

As the Kenyan companies innovate, they are watching two crucial pieces of legislation that will unlock their online potential.

The Information and Communication Technology (ICT) and the National Payments System Bill both of which are pending in Parliament.

The ICT Bill provides for the recognition of electronic signatures as per some regulations to be drafted by the minister and in accordance with the United Nations ICT policy.

Persons who knowingly falsify an Electronic Signature Certificate or use it for unlawful purposes commits an offence punishable by a fine not exceeding one million shillings with imprisonment for a period not exceeding five years or both. According to the Central Bank of Kenya, the Bank and other stakeholders are working on a comprehensive legislative framework on National Payment Systems to address the changing

methods of payment and to create the framework for online payments. The delay in the validation of information on the cards supplied by the users against data held by a central systems operator is a problem that banks have to solve and also invest in online payments infrastructure.

Until then companies like Madison, despite having provisions for downloading of essential documents, clients will have to still physically bring the signed forms to its premises or open satellite branches to collect them. The company has settled for the latter. But the minister did not take the electronic signature challenge lying down. "We can promise you that very soon, we are coming up with the necessary legislation and among other incentives like the lowering of bandwidth cost," Kagwe said.

Till then, the survival tips will come in handy for Kenyan companies.

## **Privatise sugar industry for progress-Olweny**

**Muhoroni Constituency is a major sugar producing and growing area. The MP for this area Prof Ayiecho Olweny spoke to our reporter on the problems affecting the sugar industry and their solutions. Below are excerpts.**

### **Q. Is the country ready to allow for duty free importation of sugar from the COMESA region?**

**A.** The government is not ready to remove the leviers and high taxation in the industry and this is one of the main challenges hindering development of the sugar sector. In my view, Kenya is not ready to allow for duty free imports of sugar for the next four years.

We have been exploring ways of how Kenya can survive without these imports. But I must say that the sugar industry is still lagging behind in its development and we are only hoping that things will improve. A lot progress has been made by the Kenya Sugar board and all we require is privatization of all the sugar factories to allow them develop.

### **Q. What are some of the key challenges facing the sugar sector?**

**A.** The cost of production is too high, making the consumer price of sugar high. Further, the high level of taxation has affected the industry for over a decade now, unlike in other sugar producing countries. It is only in Kenya where a heavy levy is imposed on sugar. The idea of taxing farmers discourages them from producing.

If the cost of inputs is also lowered, this would have a significant impact on the sugar sector, leading to lower cost of production and expansion of the sugar factories.

You find that most roads within the sugar plantations are in a bad state, making it difficult to deliver mature cane to the factories on time. Something needs to be done of these poor roads.

The other challenge is that some sugar mills are too small and do not have the capacity to process cane in a certain areas. These factories need to be expanded to decongest them. We also need to lower levies on local sugar to enable the local people enjoy the sugar.

### **Q. Are there any plans to upgrade the old sugar factories, especially those within the Western Kenya region?**

**A.** The government has allocated Ksh 500 Million to finance the upgrading of the old and dilapidated sugar factories. Most of the sugar factories have been renovating and replacing the old tanks. Generally, the factories have been upgrading only certain equipment. If they were to carry out an entire overhaul, the exercise would cost billions of shillings. This is why there is need to privatise the factories.

There are also new mills being set up in Kibosi, Muhoroni constituency with a capacity to process 1000 tonnes of sugar per day. TARDA is also opening up another sugar mill in Ndhiwa, which will see an increase in the capacity to manufacture more sugar in the area.

### **Q. For the last five years, the level of production in sugar has gone up. How much is each of these factories producing?**

**A.** Muhoroni has been milling between 1500 to 2000 tonnes of cane a day, Chemilil 2500 tonnes a day, Sony Sugar 6000 tonnes, Mumias 8000 tonnes, while Western Sugar and Nzoia sugar companies have been processing 6000 tonnes of cane per day each.

### **Q. What is the way forward?**

**A.** What we need is to privatise the sugar factories so as to improve their production. This is the way forward.

From what I see, the sugar factories are not well managed and are being run by people who are not committed. With privatization, investors will ensure that the factories are well managed and that there is diversification in the way the mill operates. A case in point is Mumias Sugar company which has since been privatised. Today, it is the largest sugar company in the country, with modern facilities capable of processing 8000 tonnes of cane per day.

If the same is done to other factories, I have a strong feeling that Kenya will never import sugar and that local sugar prices will drop drastically.

**Q. What is the impact of small scale farmers selling their cane to jaggeries?**

**A.** I have no problem with operators of jaggeries. They are very few in my constituency. The Kenya sugar board has rules and policies to regulate these jaggeries.

**Q. The idea of sugar cane irrigation has been embraced in other parts of the world. How far has this method been adopted in this country?**

**A.** Some of the factories like Chemilil have been embraced where at least 30 per cent of its cane is grown through irrigation. This method has worked in many countries and it will work in our country because we have a lot of water that is flowing to Lake Victoria.

The yield is more under irrigation and the method is cheaper. We need just to educate our cane farmers on the benefits of irrigation as this method will add to their revenue. Kenyan cane farmers have been relying on seasons to grow cane. This needs to change with the use of irrigation.

**Q. What positive developments have occurred in the sugar sector in recent years?**

**A.** More sugar companies have been opened and the payment arrears to farmers for cane delivered to factories have also been cleared. Transporters have also been paid while loans to cane farmers are now more readily available. The Kenya sugar board has also become more transparent and has improved its management style. All these factors have led farmers to grow more sugar cane moving from the position of abandoning the crop a few years back. At the moment, most sugar factories are well managed as opposed to the past.

**Q. What is your view on the energy bill currently before parliament?**

**A.** What we are asking is for amendments to the bill to allow for the inclusion of sugar factories in the production of power in the country. Currently most of the energy produced by these factories is going to waste given the fact that most of them produce alcohol from molasses, which can be used to blend petroleum to produce gasohol. We shall make these proposals when the bill comes to the floor of the house for discussion.

Like in other countries, sugar factories in Kenya can be facilitated to produce electricity as a way of diversifying their operations and increasing the incomes of farmers through value addition. I believe that the cost of fuel will also come down if the agro-chemical plant in Muhoroni is allowed to produce gasohol.

## **Robust growth exposes hurdles to further growth in E.Africa**

**By Musyoka wa Kyendo**

Robust economic growth rate in East Africa in the last five years has crystallized infrastructural hurdles to further growth. The region, which has been growing at more than 5.0 percent in the last five years, is gunning for a growth higher than 7.0 percent in the next five years.

However, limited capacities in power generation and poor road conditions could frustrate further growth as the cost of doing business rises. Infrastructural handicaps aside, there are also structural weakness especially in terms of skilled manpower.

Consequently, infrastructure claimed a large chunk of East Africa's US\$16.2 billion. Roads were allocated a huge US\$1.577 billion, second only to education which got a whopping US\$2.676 billion.

Kenya, which boasts of 63,000km of classified roads, allocated US\$938 million to roads. Kenya these days looks like a huge roads construction site as most of her roads are being rebuilt following years of neglect.

According to government estimates, Kenya needs some Ksh150 billion (US\$2 billion) to rebuild its roads network. Although this figure appeared way beyond the country's ability only three years ago, at the current allocation rates, it will take only three years for Kenya to rebuild its road networks.

Tanzania is second, having allocated US\$619 million to the sector. Tanzania boasts of 94,000km of classified road network. Uganda is a distant third having set aside some \$30 million to roads.

On the energy sector, Uganda beats her neighbours hands down. While she made a budgetary allocation of \$130 million to the sector, she has also won a loan of US\$360 million from the World Bank to construct a new hydropower station in Bujjagali. Kenya comes second with a \$121 million.

It is not clear how much Tanzania, which like Uganda suffered severe power outages due to drought last year, has allocated to the sector. However this much is known, the estimated cost of rehabilitating the distribution and transmission network is placed at \$1.3 billion over the next three years. Last year, the country spent a huge US\$279 million in purchase and hire of power generating equipment to alleviate power shortages caused by drought.

On education expenditure, Kenya whose literacy rate is 85.1 per cent overshoots her neighbours by a long shot. The country will spend some US\$1.81 billion on education in the coming financial year to finance free Primary and Secondary Education. Secondary education will be free in public schools from next year.

Tanzania, whose literacy rate is 69.4 percent, way below Kenya came a distant second with an allocation of US\$864 million, quite a huge chunk of its US\$4.9 billion budget.

Uganda managed an allocation of US\$12 million though it also a free primary and Secondary school programme.

Generally Kenya emerged a top spender with a nation budget placed at US\$8.8 billion, larger than budgets of Tanzania and Uganda put together. The country is now firmly established as the economic giant in Eastern and Central Africa.

Despite a large budget, some 93 percent of it or US\$8.2 billion will be financed from domestic resources. External sources will finance only 7 per cent of the budget which amounts to US\$600 million.

By comparison, 41 percent of Tanzania's budget, translating to US\$2.0 billion will be funded by external sources. In Uganda, 37 percent of her total budget amounting to US\$1.1 billion will be funded by external sources.

There are challenges related to dependency on foreign sources, analysts say. Among these is; frustration of projects' progress as donor sometimes fail to honour their pledges. Another issue raised by the International Monetary Fund with regard to Tanzania is a country's ability to absorb liquidity spawned by flows of external sources, if and when they are released. Large flows could spark off domestic inflation as more money chases limited good and services produced in the domestic economy..

## Kenya Re IPO finally opens

**By Samwel Kumba**

The government has provided yet another investment opportunity through the sale of Kenya Re shares as part of its ongoing privatization programme.

This aim of the program is to reduce demand on government resources, generate additional revenues through proceeds from privatization transactions and improving the regulation of the economy. This is through reducing conflicts between the public sector's regulatory and commercial functions.

"As a government, we intend to privatise as many state corporations as possible through the Nairobi Stock Exchange. This enables us to offer investment opportunities to many Kenyans to participate in profitable public-owned companies," explains Finance Minister Finance Amos Kimunya.

Through the Kenya Re offer of 240 million shares to the public, at a cost of Ksh 9.50 per share, the organization's corporate governance will be subjected to direct public scrutiny through Capital Markets Authority's regulations and Nairobi Stock Exchange rules.

This is likely to improve its corporate governance which will in turn minimise irregularities such as those the corporation experienced in December last year.

"I am aware that recently there were a number of concerns regarding the fine status of Kenya Re, following a number of financial irregularities associated with senior managers whose services were terminated by the board early this year.

The government moved swiftly to establish the extent of the irregularities by contracting PriceWaterhouseCoopers to carry out a forensic investigation. The results of the investigations were availed to all transaction advisors and have been taken into account in preparing the various reports required by the Capital Markets Authority which are part of the Prospectus.

I am assured that all necessary disclosures been made and that any necessary accounting provisions and adjustments have been made in the Reporting Accountants' Report," affirms Kimunya.

On her part Eunice Mbogo, the Managing Director of Kenya Re says the institution is both a local and global reinsurance player, with immense growth potential.

"Kenya Re prides itself, in its financial strength, with assets in excess of Ksh 12.8 billion. The company has profits in excess of Ksh 700 million and revenues of Ksh 3 billion. Kenya Re has been rated B+ by A. M. Best, a world-renowned premier rating agency meaning it is very solid in terms of financial strength," she indicates.

Commenting on the corporate governance lapses in the past, Eunice says the company's management has since strengthened its compliance to avoid such problems in the future.

"This is not a daunting ambition since so far we are already in 26 countries in Africa, 8 in Asia and 5 in Middle East, operating in a total of 101 insurance companies internationally and 41 locally.

In Kenya, we cover the entire insurance industry. We will at the same time ensure excellent customer care both locally and overseas to ascertain that we not only retain what business we have but we grow in leaps and bounds," assures the MD, who also promises cost cutting measures for better returns on investments.

"Innovation will be encouraged in the organization leading to new product development that should give us a lead over our competitors," she opines.

Joseph Kinyua, Permanent Secretary to the Treasury whose office holds the shares being relinquished, termed it one of the transactions which had been scheduled to take place in the last financial year.

"However, this was not possible due to the allegations of financial irregularities reported in the media in December last year. This caused delays as we had to do more work to ensure that investors are adequately protected," he explains.

According to the PS, the offer presents to all investors a new opportunity for ownership of shares in the reinsurance industry. He argues that soon the government will also be making available to Kenyans opportunities in other sectors of the economy as indicated in the budget speech for 2007/2008.

Kenya Re's chairman Nelius Kariuku termed it a culmination of a journey that was long and challenging to a coveted vision of a more focused, commercialized and liberalized company.

"We have adequately planned, prepared and waited for this great opportunity since July 1992 when the Government then published a policy paper outlining its intentions to privatize non-strategic public enterprises. Kenya Re was listed as one among the few viable and profitable public enterprises to be privatized," she explains.

According to her, the privatisation journey was not a smooth sailing exercise. It required appraisals of the Corporation's strengths and capacity, which sometimes resulted into some very painful albeit necessary resolutions. Some of the reviews led to the Corporation's restructuring and downsizing of the employees in an effort to creating optimal levels for the Corporation's economic success and relevance in a more liberalized and globalized environment.

"As such, issues of good corporate governance will be heightened to eventually lead to enhanced efficiency and effectiveness, and, therefore, greater success. This privatization strategy is commendable for greatly empowering Boards to be more business focused and accountable oriented in decision making and implementation," Nelius explains.

Recent IPOs have served to demystify the whole issue of capital investments, which is very good for the economy as more people venture into the financial markets where the listing and trading requirements of CMA and NSE guarantee protection of investors.

The successes that have been achieved are a result of the efforts of many people and the government.