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# Kenya's home grown multinationals

## *Meet top-notch local investors crossing borders*

**By Samwel Kumba**

Kenya is rated the second largest investor, after Britain, in Tanzania and Uganda. And other neighbouring countries are eyeing Kenya as a potential source of Foreign Direct Investment (FDI).

But who are these investors doing Kenya proud and what drives them? Meet our home-brewed multinational corporations and hear why they are eyeing foreign markets.

As various regional blocks begin to take shape, a number of leading Kenyan companies are positioning to take advantage of the emerging markets.

The strategy used by these companies range from setting up a distributorship, agency or subsidiary to establishing a whole processing plant if the conditions warrant it

Interestingly, while everybody seems to be going regional, other firms already having a foothold overseas are downsizing, consolidating and pulling away from their regional bases, including British American Tobacco (BAT) Kenya Limited and Africa Air Rescue (AAR) Limited.

Then caught in the middle of this regional expansion craze are companies operating with great difficulty in the region. This includes the Aga Khan owned Nation Media Group, whose stations are frequently shut off in Uganda. At one time, its staff in Tanzania had to be deported after they ran into problems with immigration regulations there.

At stake is a struggle by local companies to have access to raw materials and markets in the East African Community (EAC), Common Market for East and Southern African (COMESA) region and the SADC.

Those notable companies already having a regional presence include Bidco Oil Refineries Limited, Fina Bank and East African Cables.

Also in this league are East African Breweries Limited, Kenya Commercial Bank, Jubilee, Athi River Mining, Portland Cement, Steadman Group, Kenol Kobil, Athi River Mining, Mabati Rolling Mills and UAP insurance.

The fundamentals driving these companies to go regional are as varied as the companies themselves, ranging from heavy industrial commercials like East African Cables to those in the service industry, including Steadman and ScanGroup Limited.

While players like Bidco Oil Refineries have set up Palm oil farm and plant in Uganda, others have moved into the regions previously affected by conflict, including Rwanda, Burundi and Southern Sudan.

These countries are currently undertaking massive reconstruction programs, including rebuilding of infrastructure. They have a huge demand for goods and services ranging from consumables to commercial, financial and industrial goods. It is this demand that is prompting Kenyan companies to rush to the regions.

Then there is the group that is targeting the regional East African Community (EAC) as a spring board to the wider regional blocks operating in the African continent. Fina Bank, one of the SME specialized commercial banks in the country, is one company that has its eyes trained on the regional markets.

With an overcrowded sector composed of over 42 banks, with only six of them controlling a massive 80 per cent of the business, Fina bank has been moving regional to attract more customers and remain different from the rest.

"We have focused on the SME market and through this; we have managed to grow beyond the borders," says Frank Griffiths, the Managing Director.

After encountering problems in 2004, when it bought an insolvent business in Rwanda, Fina bank is now on a roll and is targeting another acquisition in Uganda. The bank has already applied for a license from the Central Bank of Uganda and is waiting for it to go through. "We are undertaking a steady and calculated regional growth plan. The Uganda case is easy because most of us have worked in Uganda before. I worked in Uganda for over 6 years as the Managing Director of Barclays Bank. My other colleagues have also worked in Uganda," Griffiths explains.

The bank also plans to move into Tanzania as part of the expansion in the East African region, eventually moving into Burundi, Congo and Sudan.

Another regional player is East African Cables, which has been expanding for strategic reasons. Mugo Kibati, the Group Managing Director of East African Cables, says that part of the reason why the company bought into Tanzania is to position for the Southern Africa Development Community (SADC) market.

"We are currently looking at SADC countries more holistically. With our Tanzania operations, we are assured of markets in Angola, Botswana, Lesotho, Malawi, Mozambique, Swaziland, United Republic of Tanzania, Zambia and Zimbabwe," explains Kibati.

In 2006, East African Cables went into Tanzania, while in October the same year, it opened operations in Uganda. It has also set up shop in Rwanda.

"In both Rwanda and Uganda, we have not invested much and only have a depot and office. But in Tanzania, we not only bought a plant but have also hired locals there. Our investment in machinery here is ongoing and has increased from the initial US$ 2 million (about Ksh 140 million)," says Kibati.

East African Cables has now set its sights on South Sudan, DRC Congo and Burundi as part of its expansion strategy.

Also on the regional list is Bidco Oil refineries Limited. The company first ventured into the regional market in 1998, after it acquired Elianto and increased its production capacity by over 500 per cent. The aim was to find a market for its products

Bidco's Group Managing Director Vimal Shah says the company expanded into Tanzania in 2001 by acquiring Shivji & Sons, a leading soap manufacturer in Tanzania, whose flagship brand was *mshindi* bar soap.

This acquisition was seen as part of Bidco's expansion plan in Tanzania as well as the SADC market, where Tanzania has preferential status.

Vimal says that their investment in the EAC trading block is not coincidental. "It is based on prudence and guided by our vision of being the first African-based multinational, with a large customer loyalty and market leadership in the continent," says Vimal.

Crown Berger, another local company with regional tentacles, has a presence in Uganda. Its Chief Executive Officer Rakesh Rao says their investments in Uganda amounts to Ksh 70 million.

Rakesh explains that before a company goes regional, it should consider its target market and products. Those considering the regional market should also carry out a thorough research to determine whether the market is viable.

"In our case, we ventured into the regional market due to demand considerations and the fact that our aim was to grow with the economies we move into. For instance, we intend to grow with the Sudan economy, which is still in the infancy stage. As demand increases, we shall also increase our presence," says Rakesh.

Rakesh is not done yet. The company's expansion strategy is to use Uganda as a base to serve other markets, including that of Rwanda and Congo.

The company is in Sudan and intends to set up shop in Rwanda and the COMESA region in the future. Currently, it is supplying Seychelles and Somalia and is also targeting Tanzania.

It is also planning to venture into Ethiopia, by negotiating for joint ventures with local companies there, especially those that are being privatized.

Another notable company in the region is state-owned Kenya Commercial Bank (KCB). Its CEO Martin Oduor-Otieno says KCB is tracking developments the East African Community (EAC) due to its great potential.

"We are already looking at further expanding business opportunities in both Tanzania and Southern Sudan where we already exist. Similarly, we are exploring opportunities in Uganda as well as Rwanda for we believe that just as the EAC is expanding in that manner, we should also expand. In about 15 year's time, we should be seeing ourselves as a pan African bank," envisions the KCB CEO.

KCB is perhaps positioning itself to become the best bank in the region. The bank has previously recorded tremendous growth and the MD seeks to continue building it on the foundation that has already been laid and take it to the next level.

*The Financial Post* has since established that KCB's Sudan operation has recorded tremendous performance and there is potential for expansion.

Arguing that growth becomes a challenge if it just happens and is not well managed, Martin reveals that KCB's growth strategy is based on the company's five-year strategic plan which the board approved last year.

Only recently, the bank's chairlady, Susan Mudhune, confirmed that their businesses in Tanzania and Southern Sudan will also expand by opening a couple of new branches each.

# Challenges facing local companies going regional

An expansion by local companies in Kenya into the regional markets of Eastern Africa has not been without its problems.

Quite a number of companies have had to difficulties penetrating these regional markets, with problems ranging from language barriers, discriminatory immigration and business regulations and even political interference in some countries.

Griffiths of Fina Bank, for instance, cites a language barrier as one of the obstacles the bank had to deal with in its expansion in Rwanda. He says that Rwanda is largely French speaking and has French legal systems, which are similar, but not the same as the English ones.

However, he expresses confidence that Rwanda is changing into an English speaking country, having joined the East African Community. But for a new comer, there are challenges of wooing customers.

“But if you are patient and confident in your strategy and have the right people, you can be successful,” he says.

According to Martin-Odour or KCB, the main challenge it has had to face in the region includes lack of a regulatory framework and infrastructure, especially in Southern Sudan. But he says that things are changing in this market.

Rakesh of Crown Berger has been able to overcome a few huddles in Uganda. The company is exempted from paying export duty because it has a plant in Uganda.

But culture is still an issue: “Ugandans have a different taste for paint both in terms of colour and quality. Nairobi is a very good market for our premium products.” says Rakesh.

Companies that have gone regional have also had to deal with the problem of being new in the market. All the new in the regional platform have had to build up brand loyalty and a customer base, which has proved a Herculean task for some, given that they have to fight the traditional brands in these markets.

Also facing a culture problem has been East African Cables. Kibati says that in Tanzania, for instance, one has to be fluent in Kiswahili.

“Also, most countries protect their own markets. The number of Kenyans we can employ is heavily restricted in Tanzania. This means that we had to quickly learn how to run the office using the local people in the respective markets,” explains Kibati.

Compared to other regional markets, Kenya still rates highly in terms of the business environment compared to other markets.

# Kenya set for a new licensing regime

By **Guchu Ndung’u**

A new Business licensing regime for Kenya is in the horizon. Soon after the elimination of over 110 licenses and simplification of eight others, Kenyan businesses will soon offload others.

The government is to table a raft of reforms in licensing laws and local authorities’ permits that will see businesses cast off their licensing load. The proposed Business Regulation Bill 2007 and Licensing Laws (Repeals and Amendments) will effectively reform the licensing regime in Kenya.

It proposes the establishment of a Business Regulatory Reform Unit and the Electronic Regulatory Registry. The Reform Unit, to be housed at the ministry of Finance, will vet any proposed new business licenses.

It is already in place but is awaiting the passage of the bill by Parliament to give it the statutory backing.

Once a license has been enacted, it will put in an electronic registry where potential investors can, by a touch of a button, know the licenses required to start a business.

The proposed registry will also serve as a single point of information for new investors on the licenses they need before they set up shop in the country.

Previously, investors have complained of lack of a central point of information on the number of licenses they are supposed to comply with.

The registry should be up and running by June next year, when the bills are expected to have been passed.

The measures are part of the reforms enacted under the Business Licensing Reform Project (BLRP), an initiative of the Government and FIAS, a multi donor advisory service of the World Bank Group. It was funded by DFID and the Japanese Government.

It was led by a committee of 12 led by advocate Ben Musau, whose mandate was to review all business licenses with a view to simplify, eliminate and harmonize business licenses in the country.

The Bill is expected to remove over 100 licenses that cut across sub sectors like theatre, scrap metal and industrial alcohol licenses. The committee established that there are over 1,325 licenses that the business community had to comply with.More than 50 percent of these are from local authorities. This is not surprising for local authorities, starved for cash to finance their daily operations, concocted all sort of levies.

The Musau led tribunal for instance the “single business Permit” cost the business community a whopping Kshs 4.4 billion but earns the government a mere Kshs1.5 billion.

“The permit does not make business sense. The burden to the economy is higher than the revenue,” Musau says.

"International practice is having between 50 to 200 licenses and still reduce this burden as time goes by," adds Musau.
Some licenses cost outlays are particularly high. Perhaps it is for this reason that the Ministry of Local Authorities has all but abolished the single Business Permit.
In a circular to all local authorities last month, ministry eliminated some groups of business people from paying for the license. Among these are; transport and distribution of goods by manufacturers or their agents who are not based in the council's Jurisdiction.
The permits should only be levied on transporters operating from the area of jurisdiction and the sales outlets established therein.
"Businesses should not be charged for the cost of inspections for fire safety, including the inspection of fire extinguishers as fit for purpose. This is a service whose cost is covered by the Single Business Permit," the circular directed.
The ministry also released a model schedule of how local authorities should design their single business permits.
The circular dated June 8th 2007, was exclusively obtained by *The Financial Post* directs that these measures become effective immediately.
In another circular advertisers are also lined up to benefit from the reforms as charges of advertising on banners, billboards, posters, directional signs, mobile advertisements at shop fronts and branded items will be discontinued.
But they will pay advertising fees for installing such billboards, signs and banners on public land or property, such as road reserves, public buildings, lamp posts and bus shelters.
Currently local authorities charge fees for businesses to advertise whether or not they do so on their own or public property.
The rural folk will also gain as the fees levied on produce delivered to rural markets on market days, has been scrapped. The rural folk have been doubly charged where they move from one market to another and pay the levies for the same charge. The circular directs that the levies be paid only once.
Cess levied on the transport of produce on which has already been paid by the producer will not be paid.
All nuisance levies such as for inspection, erection, and use of the land for hoardings on construction sites have been removed and covered by the cost of the building Permit. Says the circular signed by Permanent Secretary., S.S Boit. This will eliminate unnecessary taxes to developers of new properties.
Municipal authorities are expected to start implementing the proposals in the circular next year.
While local governments are expected to cry wolf over the loss of revenue, Musau offers that the benefits in increased investment outweigh the immediate loss of revenue.
"Increased investment will result in more taxes for the central government which will also mean more allocation for local authorities through the Local Authorities Transfer Fund (LATF)," says Musau.
The central government channels a percentage of its earning back to local governments through LATF and last year it paid out Ksh 7.5 billion to over 175 local authorities in the country.
The Musau led committee has recommended the elimination of 424 out of 1,325 licenses and simplification of 607 others by the 2007/2008 financial year. The government has implemented 74 per cent of the recommendations and also eliminated some license during the budget speech.
"Within the next five years, the government ought to cut the regulatory red tape in priority areas by 25 per cent each year," adds Musau.

# New KCC, first dairy super brand

**By Mwangi Maingi**

New Kenya Co-operative Creameries, the leading dairy processing company, has received the prestigious Superbrands certification. It becomes the first dairy firm in East Africa to receive the award in the history of dairy in the region.
According to Jawad Jaffer, head of Superbrands East Africa franchise, the Superbrand's Council bestowed the status of 'Superbrand' on the New KCC after a stringent sifting and analysis process.
"The Superbrand Council Superbrand status is granted only to exceptional brands that have forged the finest reputation in their field in a bid to promote good branding practices globally," said Jawad.
New KCC's Managing Director Francis Mwangi said the certification confirms the company as a regional benchmark in the dairy industry. "It has endorsed our products to effectively compete in the international arena against global dairy brands", he said.
Mwangi said the company has focused consolidating its market leadership by committing more resources on marketing and distribution functions. For the last eighteen months since its revival in 2003, New KCC made Ksh 349.8 million profit before tax from a loss of Ksh 8.2 million.

“This year, we are going to stretch our profit targets with commitment to grow by close to 40 per cent higher than last year’s,” Mwangi said during the award presentation last week in Nairobi.

The firm has contributed to the growth and stabilisation of dairy market in Kenya, both in quality of the milk, pricing and prompt payment to dairy farmers. The price of milk per litre has risen significantly from Ksh 8 to around Ksh 18, a 125 per cent price increase within 18 months.

This according to the firm’s chairman Matu Wamae has made New KCC to attain over 40 per cent of milk intake in the Kenyan on dairy market.

In addition, the firm projects a rapid growth in the export market that currently stands at Ksh 5o million annually to over Ksh 1 billion by the end of this financial year. So far, the firm has exported 180 tonnes of powdered milk to Yemen and more orders for butter and cheese are coming from Tanzania, Rwanda, Uganda, Mauritius, Dubai and Egypt.

“We are exploring new markets including North Africa and West African countries,” Wamae said.

Managing Director for Kenya Dairy Board Machira Gichohi said that Kenya’s annual milk production is four billion litres annually, it therefore means that the dairy industry accounts for over Ksh 60 billion in the economy.

However, he called for support from both the government and international trade partners by removing subsidies on agricultural products including dairy products.

This would not only level the playing ground for local dairy products in the international markets, but would also make Kenyans be a proud beneficiary of a ‘white gold’ in the future.

Other brands that have achieved Superbrand status globally include DHL, American Express, Audi, AVIS, Sony and McDonald’s. Others are MasterCard, Philips, Pepsi, Nokia, Microsoft, Gillette, Kodak and Heinz.

Brands with Superbrand status are entitled to use the Superbrands award seal on their packaging and in their advertising to show customers that they have achieved this recognition for their branding excellence.

# Ndia’s 34 secondary schools for 34 primary schools

***He is among the group of first timers in the current parliament, having served in the Ministry of Justice and Constitutional affairs as an assistant minister before moving to that of Transport. The MP for Ndia Robinson Njeru Githae spoke with our reporter on his experiences and more. Below are excerpts:-***

**Q. It is your first time in parliament. What has been your experience as a member of parliament and as an assistant minister?**

**A.** What I can say is that I have had a good experience in this new environment. And I have learnt a lot. First, I was privileged to be appointed an Assistant Minister in the Ministry of Constitution and Justice Affairs. I was very happy because this Ministry needs a lot of commitment and because am a person of action. I was able to deal with several issues, and one of the major and challenging one was participating in the constitution review debate.

One of the promises made by the NARC government was to deliver a new constitution within hundred days. This was a great challenge.

My experience in the Ministry of Transport has also been enlightening. Here, I have learnt a lot from marine to aviation, from railway to metrology and ports. I have also enjoyed a good working relationship with various ministers and permanent secretaries.

As a member of parliament, I have had a wonderful time with my constituents. I have received abundant support from them. This is why we have been able to achieve this much. Again I have created time for them every Friday, Saturdays, Sunday and Monday. I have always been with them since I was elected to date.

**Q. Are you seeking another term? And what are some of your plans?**

**A.** Yes. I have no doubt that I will be re-elected. Some of my plans when re-elected is to ensure that the water project that we have already initiated is completed. My goal is that every home in Ndia must have clean piped water in the next five years. I also intend to empower the youth as well as improve roads in the constituency. Although I have done a lot for the constituency, a lot still needs to be accomplished.

**Q What are some of the achievements that you have made for the people of Ndia constituency?**

**A.** We have done a lot. If anyone has doubt, he/she just needs to pay a visit to the constituency to see for himself/herself.

**Q. What are some of the projects you have initiated using the constituency development fund?**

**A:** We have put up a day secondary school in every primary school; the entire constituency has 34 Primary schools, so now we have 34 new secondary schools which are now all done and operating.
What is remaining is supplying them with laboratory equipment; library material and suitable administration blocks which we hope will be done probably before the year ends.
These day secondary schools are mixed, where parent have to pay Ksh 8000 a year as tuition fees, an amount that is affordable.
We have also put up a police post in every sub location so as to address the problem of insecurity. The CDF fund has also been used to build offices for the Assistant Chief and Chiefs because we do not want them working from home. Further, we have put up divisional offices which comprise the Constituency, AIDS, Administration Police Commandant Office, Youth Office and the divisional Probation Officer Office This is to ensure that public service delivery to the people is improved.
We have also put up dispensaries in every sub-location to alleviate the problem of women travelling long distances to seek for medical attention. We have also established over 20 water projects in the constituency to ensure that every person in the constituency has clean piped water over the next 5 years.

**Q. What are some of the contributions you have made in passing crucial bills in parliament?**
A: The proposed constitution that was rejected during the referendum is one of the bills that I participated in. This is one of the best constitutions that Kenyan never had.
The current debate on minimum reforms would not have arisen if the constitution that was rejected was adopted. The constitution that was rejected was because it had been politicized.
I have to say that the constitution that is going to be made in future for this country will not be different from what was rejected in November 2005.

**Q. What are your views on a proposal by the government to scrap the Nissans to replace them with the 25- seater matatu?**

**A:** This is a policy that was being pushed by the ministry. We had to withdraw it due to lack of support from the relevant parties. My view is that the 25 seater is more economical than the 14 seater one.

**Q. What measures are being put in place to streamline the operations of the container depot at the port of Mombasa?**

**A:** What is going to happen is that if you have a container and it is not collected within 21 days, it is going to be removed from the port and kept aside. If it is not collected or claimed within two months, the government will sell it out, to pay the port duty.

**Q. Chaos appear to be creeping back into the matatu sector? What is the ministry doing to restore order on this industry?**

**A.** The so called 'Michuki rules' have not yet changed. They are still the same. What has been lacking is enforcement of these regulations by the traffic police.
We are planning to transfer the Traffic Police Department to the Ministry of Transport so that these rules can work effectively. We shall then be able to arrest offenders. We also need to train members of the public on road safety since they lack knowledge and only belt up when they see a traffic policeman. We also need to introduce a road safety bill in parliament in order to streamline operations of the public transport sector.

# National oil corporation expands retail outlets

**By Guchu Ndung'u**

Four years ago, National Oil Corporation of Kenya (NOCK) was leaking as much as its oil pipes.
It was bloated with excess staff, had not filed tax returns for six years, and had accumulated a loss of Ksh 1 billion.
But when the MD was announcing the transfer of over 13 outlets from Kenya Shell last week to the corporation's chain, he was an optimistic man.
Mwendia Nyaga, wants to double National Oil's Ksh 4.3 billion turnover made during the 2006/7 financial year.
"We are doubling the number of petrol stations to 50 by the end of this year," says Nyaga.
After the acquisition of the 13 outlets from Kenya Shell, National Oi will have 41 petrol stations, 30 per cent of these located in Nairobi.

Selling the stations was one of the conditions that Shell Petroleum Company had to meet to acquire a 50 per cent stake in British Petroleum (BP) last year.
Shell was among four companies, including two locally incorporated firms, which bid for the purchase of BP's share in three local companies - Shell and BP Malindi, Kenya Shell and BP Kenya.
The state-owned NOCK, which was among the bidding companies, pulled out of the deal after failing to meet the bid requirements.
Though Kenya Shell won the bid, the government put the sale of some of the BP outlets to National Oil as a key condition to approve the buy.
While there were reports of pressure from the government for Kenya Shell to sell the outlets to National Oil, Kenya Shell managing Director Patrick Obath told The Financial Post that it was a 'willing buyer, willing seller' arrangement.
"We were not pressured. The government explained that they wish to strengthen the competition in the oil industry and we negotiated," said Obath.
Obath, however, did not rule out the possibility of Kenya Shell reinvesting in some of the areas that their former outlets were based in.
Both CEO's, however, declined to reveal the amount involved in the deal.
This deal comes barely a month after National Oil, in what was seen as a bid to flex its new found clout on the local market, resumed bidding to import the country's crude and petroleum products.
The parastatal is banking on a Ksh4.2 billion ($65 million) loan from France's BNP Paribas, to purchase 80,000 metric tonnes of crude oil. About 20 such shipments are brought into the country each year.
National Oil is also at the centre of talks between the Government and Libyan firm Tamoil, on long-term oil supply contracts.
Libya is expected to supply 30to 40 per cent of Kenya's demand for fossil fuels.
National Oil's involvement in the oil market is expected to ease the supply of oil in the country and stabilize retail prices.
Network expansion and importation of crude oil is one of National Oil's six strategic goals aimed at raising its market presence announced during the launch of its Service Charter recently.
The government allocated it Ksh 1 billion to implement the goals.
National Oil is expected to grow its retail market share, currently standing at 2.5 per cent. With a growing market clout, there are fears that the government will use the corporation to rein in oil companies, which in the past have been accused of arbitrary price increments.
"We are not going to take an advantage of consumers but we also have to run a commercially viable business. Also, we will not push anyone out of business as our price will be based on the market and cost basis," says Nyaga.

# CBK staring at a "huge book loss"

**By Samwel Kumba**
The Central Bank of Kenya (CBK) is staring at a huge "book loss" running into billions of Shillings. A book loss is a theoretical loss not an actual loss because it simply hypothesises on what should have been, had conditions been diårencies, how much the US$2.6 billion forex reserves the bank holds be, worth in terms of Kenya shillings.
The difference between the old rate and the new exchange rate then form the "book loss or gain." In other words, the "book loss at CBK is a measure of the extent of the strengthening of the shilling against major currencies.
Though CBK management could not confirm this since they have just closed the year, what is apparent is that as at June 29 this year when they closed the year, the exchange rate was lower than was the case was in June 30, 2006.
"We have just ended the year and we are working on the figures.
The auditors will be coming in for the next two weeks to go through the books," is all Jonathan Bett, Director, Finance, Resource Planning & Strategic Management department could tell *The Financial Post.*
Bett maintains that it is only after auditors have finalized with the accounts that CBK will determine the amounts of loss likely to arise given the lower exchange rate.
"However, may be the figures can be recouped by the reserves and even the revenues generated and other operating profit," Bett expresses optimism.
Currently, CBK's reserves stand at $2.6 billion. The foreign exchange market indicative rates for major currencies on June 29 this year was Ksh 66.6422 to the dollar while on June 30 last year it was Ksh 73.9633 to the dollar.

This indicates a deficit of Ksh 7.3211. This means that if CBK was to convert its reserves into Shillings for purposes of accounting, they would realise a foreign exchange translation loss of about Ksh 19 billion which will be their book loses from sale of foreign exchange.

Though CBK has made similar losses previously, the magnitude has been negligible. For example CBK made a foreign exchange translation loss of Ksh 487 million in 2005 and Ksh 3.637 billion in 2006. All these were absorbed by profits and reserves. But this year the figures might be tantalizing.

Fortunately, CBK had cleared allocations for impairment loss on amount due from the government of Kenya, monies for which they allocated the last batch of Ksh 4 billion last year.

"When the loss runs into tens of billions which we cannot absorb, we might end up seeking assistance from the exchequer," explains Bett.

However, he clarifies that the foreign currencies are still in CBK's reserves and have not been traded on. These reserves are usually used to service government debts and other imports.

"We keep spending and replenishing it. But, if we were to sell all the foreign currencies as we close the year, we will make the actual loss. And we do actually sell some to the government for imports and that has already resulted to actual loses already realized. In a year we use about $500 million to services these debts and other requirements including embassies," says Bett.

"However, we have got into a loss a number of times but ideally we should not because we know our revenues and we can balance the two.

The first time we went into a loss was in 1993 and it was historical. This is when a number of banks went under and we had to write off some debts they owed us. It was until last year that we provided for the last batch of the loss. These banks had earlier overdrawn their accounts. But until 2004/5 we had never been into a serious loss position. But, in 2005/6, the loss we recorded arose from the foreign exchange gains and loses. This is what is likely to happen again this year," clarifies Bett.

# Kenya Re IPO drains financial markets

**By Jackson Okoth**

The entry of Kenya Re IPO has caused something of a drought in both the capital and financial markets.

When the offer for sale of 240 million government shares in Kenya Reinsurance Corporation Limited opened, Institutional investors immediately withheld their funds in order to participate in the issue.

This drained cash from the financial system, slowing down activity at the treasury bills auction as well as the Nairobi Stock Exchange.

According to the Central Bank of Kenya (CBK), the Treasury bills auction of July 19, 2007, was subdued. For the third consecutive week, says the weekly Newsletter, Government securities market performance was subdued. The Government offered for sale Treasury bills of Ksh 4.5 billion during the auction and received bids of Ksh 3.2 billion, which was a performance of 71.2 percent compared with 80.7 percent in the previous week's auction.

The Nairobi Stock Exchange (NSE) also took a similar beating. On July 19, 2007, Volumes was 24 per cent lower than the previous week. The number of shares traded shrunk from 47.7 million shares in the week ending July 12, 2007 to 36.3 million in the week under review. Value too turned South shrinking 16.3 per cent to Ksh 1.4 billion in the week ending July 19, 2007 from Ksh 1.7 billion in the previous week.

Institutional investors are expected to take up 72 million shares or 40 per cent of all shares floated at the exchange. The minimum application size to the qualified institutional investors is 100,000 shares, making this class of investors one of the largest players in the IPO. Together with insurance companies, the two classes of investors are expected to snap up 53 per cent of the issue.

The IPO which opened on July18, 2007 closed on Tuesday. Trading in the shares at the Nairobi Stock Exchange (NSE) will begin on August 27th, 2007. The Kenya Re IPO becomes the second this year to come into the market following the one by AccessKenya group, the only IT firm listed at the Nairobi Stock Exchange.

The Kenya Re IPO is expected to be oversubscribed given the company's fundamentals, including a strong domestic market share. This edge and strength has been built through a compulsory requirement that local insurance companies cede 18% of their business with it.

The Company has also been performing well on the international market, generating an estimated 40 per cent of its revenues. It presently reinsures business in 41 countries and has an international client base of 116 companies.As the Kenya Re IPO runs its course, attention is expected to now shift to Safaricom Limited, where the government intends to offload 25 per cent of its stake in the cellular phone company. The government currently owns 60 per cent of Safaricom Limited, with 35 per cent held by Vodafone of the UK and the remaining 5 per cent owned by a local investment group known as Mobitelea Ventures. Recently, the Treasury invited foreign professional advisory services companies to bid for participation in the Safaricom initial public offer.

This was a revision of earlier guidelines issued by the Investment Secretary, Ministry of Finance Esther Koimett, restricting those bidding for Expressions of Interest (EOI) in the IPO to locally registered professional advisors.

While the Treasury is yet to confirm whether the Safaricom IPO will also be placed on the international market, its last minute decision to open the EOI to international transaction advisors points to an attempt to increase the profile of the offer, probably reaching out to foreign investors.