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Kenya. MARKET DEVELOPMENT AND DEVELOPMENT
OF EXPORT ORIENTED INDUSTRIES .

AR/KEN/74/002

KENYA

Terminal Report

Prepared for the Government of Kenya
by the United Nations Industrial Development Organization,
executing agency for the United Nations Development Programme

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United Nations Industrial Development Organization (UNIDO)

Vienna

This report has not been cleared with the United Nations Industrial Development Organization which does not, therefore, necessarily share the views presented.

CONTENTS

1. INTRODUCTION:

1.1 The projects KEN/05/54 and KEN/41/01 are ongoing SIDA financed projects for assistance to the Government of Kenya, Ministry of Commerce (Kenya External Trade Authority), in the field of export promotion. International Trade Centre, Geneva is the executing agency, with UNIDO providing assistance in recruiting industrial experts (UNIDO project No.AR/KEN/74/002).

1.2 The Adviser joined the project in December 1977 at which time there was another UNIDO Adviser (on food processing industries) in position. Other project staff included the Project Manager, a Marketing Adviser, Handicrafts Adviser, a Trade Policy Adviser and a Documentation Adviser.

1.3 It was noted that the industrial component of the project did not have adequate perspective or set priorities and hence the Adviser devoted the first two months to the task of conducting a sectorwise analysis of industries and charting out the programme of work in consultation with the Ministry officials. At the same time, recommendations were made to recruit additional local technical staff to build up the Technical Section of the organisation (KETA).

2. PROGRAMME OF WORK:

2.1 During the first two years, a substantial part of the adviser's time and attention was devoted to the finalisation of the commerce and the industries chapters of the Development Plan (1979-83) of Kenya.

2.2 A major constraint in augmenting exports of manufactures was identified to be the inadequate manufacturing capacities and the limited range of products. It was also noted that many of the locally available industries' resource materials (like hides and skins, pyrethrum extractions, minerals etc.) were being exported in raw or marginally processed condition.

For many other industrial items produced in the country, there was no scheme of export incentives designed to cover the varying cost of manufacture differentials or the ever rising import duties on raw materials. Basic groundwork was necessary for promoting the growth of some of the agro-based and programme oriented industrial activities (like mushroom cultivation, honey/wax generation, oil palm cultivation, sericulture, etc.).

2.3 In view of the above, a paper outlining the guidelines for the work of the Technical Section was finalised in consultation with all concerned. This gave priority to the preparation of Industry Review/Policy papers and special schemes of export promotion/export development.

2.4 A large number of policy papers and industry reviews were prepared and circulated to the economic ministries. Likewise, special schemes and projects for export promotion were prepared and circulated. Copies of these have been forwarded to the I T C and the UNIDO, alongwith quarterly progress reports. These are tabulated in Appendix A for ease of reference, while the Summary recommendations arising from some of the more important reviews/schemes are reproduced in Appendix B.

2.5 A major task completed during this period, was the project feasibility report for an export processing zone prepared at the instance of the Ministry of Finance and Planning. The executive summary recommendations made therein are shown in Appendix B. The Government is yet to take a final decision on the proposal.

2.6 During the latter part of the assignment, it became increasingly apparent that the tariff structure will have to be rationalised if manufactured exports are to remain competitive. This was particularly so, on account of the higher tariffs imposed by the Government to generate revenue or to offer protection to similar products manufactured in the country. Such tariff increases by generalised classifications frequently lead to unintended duties on imported materials essential for export manufacture. To analyse such problems in depth, a comprehensive review of the tariff structure was carried out and recommendations made to rationalise the same from the point of view of promoting export of manufactures. Summary of the recommendations are attached at appendix C. Most of these were accepted by the Government and the revisions were implemented in the 1981 budget. The exercise is being continued.

2.7 It was noted that the mineral based processing industries (diatomite, fluorspar, soda ash), as well as certain other local resource based industries (cinchona and pyrethrum processing) required expert investigations by specialised consultants, for increasing export earnings from them.

The I D A has signed a credit agreement with the Government of Kenya for this purpose. The Adviser has prepared project proposals for three such studies (diatomite, fluorspar, cinchona) which have been approved. These are the only ones approved so far, although other Ministries and the investment institutions were also required to come up with ideas. The counterpart staff have been fully trained in the work.

2.8 Another major activity during this period was the preparation of supply survey brochures. Two such brochures (following the I T C format) have been printed, three more are in the press, while work on 15 further product groups has been taken in hand. The counterpart staff has been fully trained in continuing the work in future.

3 FINDINGS AND RECOMMENDATIONS:

3.1 Development of export oriented industries calls for a three pronged approach:

3.1.1. Firstly, immediate results can be obtained by fuller utilisation of the existing installed industrial capacities for export production. This in turn requires special schemes like the one on Duty free import of raw materials for export production. It also requires continuous monitoring and analysis of the problems being faced by each sector (like limitations of domestic raw materials or unintended high incidence of import duties), and timely corrective steps.

3.1.2 In the intermediate term, possibilities of increasing export earnings of manufactured products from an industrial sector which has been largely established for import substitution, are limited. For this purpose, it will be necessary to set up exclusive export processing zones and/or customs bonded factories manufacturing for export. Even the future course of industrial development will have to increasingly rely on a mixed market (partly local and partly export), on account of the limited domestic market for many products being imported at present.

3.1.3 The long term projects mainly comprise of those based on local resources (agricultural, forestry, fishery, minerals etc.). For some of the identified areas, preliminary studies had been conducted by other experts and advisers. The adviser has subsequently prepared policy papers on some of these (soda ash, leather processing), utilising the data and information from the earlier reports. It must be realised that bringing about changes in the developmental policies and strategies in respect of such products is an uphill and a time consuming task, on account of the entrenched multinationals operating in these industries. Partial success was however achieved in the leather ~~field~~ where export of items in raw or semi-processed condition has been made difficult.

3.2 Many new industries of a capital goods nature (machinery, transport equipment) which are being established, suffer from the lack of rationalisation of sizes and types and a clearly enunciated policy and administrative mechanism for their development. In the absence of these, a number of well worked out and intrinsically viable projects (like machine tools, electric motors/transformers, auto-ancillaries etc.) are waiting in the wings. It is strongly recommended that the Ministry of Industry takes on this task in all the urgency that it deserves.

3.3 As stated in 3.1.1 above, additional export earnings can be generated by utilising the spare capacities in a number of industries like ready made garments, light engineering, plastic moulding, chipboard etc. Urgent action is required to be taken for implementing the special schemes like "duty free import of raw materials for export production" designed by the adviser.

3.4 It has been recognised that further industrialisation will have to rely heavily on export oriented products. The export processing zone project and the schemes of export manufacture in bond, which have been fully developed by the Adviser and are under consideration of the Government for quite some time, should be implemented immediately.

3.5 A number of export oriented projects in the large scale sector (cement, pineapple processing, soda ash etc.) have remained dormant for want of a focal point of decision and action. These require to be reactivated through interministerial consultations.

3.6 It has been the experience of the Adviser that the frequent tariff changes as well as the resultant possible anomalies are having a detrimental effect on the export competitiveness of many of the manufactured products. The need for a continuous review of the situation as it arises, along with the proposed revision of the recently evolved "Import Licensing Schedules", from the viewpoint of export production, cannot be over-emphasised.

KETA as the primary export promotion arm of the Government should strengthen its technical capabilities for carrying out such techno-economic evaluation.

3.7 One of the tasks undertaken by the Adviser towards the end of the period was the compilation of the Supply Survey handouts for medicinal products and for automotive leaf springs. The counterpart officers have been fully trained to continue this work and they have done the preliminary work on 15 product groups. This is a very worthwhile activity and should be continued.

3.8 Some of the export product industries like diatomite, soda ash, vermiculite etc. can be expanded and diversified to earn larger foreign exchange. But such projects require expert evaluation by competent mineral and other specialised consultants. Project papers for financing of such studies have been prepared by the Adviser in respect of diatomite, fluorspar, and cinchona. These have been approved and forwarded to the World Bank for inviting bids. Additional products requiring such specialist examination have been identified and the counterpart staff trained to prepare the proposals. This activity should be continued.

4. CONCLUSIONS:

4.1 In conclusion, it is reiterated that the Technical Section of KETA is an essential service wing of the organisation contributing to its export promotion effort, particularly in respect of the manufactured and non-traiditional products. It continues to receive a large number of would-be exporters and/or entrepreneurs planning to enter the export production field, and their technical marketing and other queries have to be answered satisfactorily. Within the organisation, it has given valuable technical support and inputs to the other wings. Its limited staff have been trained by the Adviser, but they need further intensive inplant training. Above all, the staff strength requires to be augmented in view of the paramount need to increase the export earnings from manufactured products.

APPENDIX A

STATEMENT SHOWING INDUSTRY REVIEWS AND SPECIAL SCHEMES OF EXPORT PROMOTION PREPARED DURING THE PERIOD

S. NO.	ACTIVITY	PERIOD
1	Sectorwise analysis of industrial and export industry prospects.	JAN/FEB 78
2	Guidelines for the work of the technical section in the organisation	" "
3.	Policy paper on the development of the leather industry	FEB. 1978
4.	Statistical analysis of imports/exports with a view to identify export industry prospects.	MARCH/JUNE 1978
5.	Review of the electrical power and lighting equipment industry	JULY/AUGUST 1978
6.	Design of a format to determine marginal cost of manufacture for export.	JULY 1978
7.	Scheme of duty free import of raw materials for export production	OCTOBER/DECEMBER 1978
8.	Review paper on electronics industry	JAN-MARCH 1979
9.	Policy paper on export of services	MARCH 1979
10.	Project report on the Nairobi Export Processing Zone.	APRIL 1978 -APRIL 1979
11.	Policy paper on bilateral trade with Uganda	MAY 1979
12.	Proposal to set up rural service centres	JUNE 1979
13	Review of the fruits and vegetables processing industry	JULY 1979 TO SEPT.
14.	Trade and economic co-operation between Kenya and Saudi Arabia	AUGUST 1979
15.	Trade and economic co-operation between Kenya and Malawi	SEPTEMBER 1979

16.	Revision of Investment Guide 1980	SEPT. 79 - JAN.1980
17.	Review of the automobile and the auto-ancillaries industry.	APRIL 79 - FEB.1980
18.	Planning of Investment Workshop in Cologne	AUG. 1979 - MAR.1980
19.	Review of the glass fibre reinforced plastics industry	APRIL/JUNE 1980
20.	Exploitation of Lake Magadi Soda deposits for exports.	JUNE-JULY 1980
21.	Mid-term analysis of export of manufactures.	JUNE-JULY 1980
22.	Trade and economic relations between Kenya and Zimbabwe	AUGUST 1980
23.	Cabinet paper on a 100.000 T/Yr. commercial wood pulp plant for export.	DECEMBER 1980
24.	Manufacture and export of artificial fishing flies	JAN-MARCH 1981
25.	Review of the chipboard industry	FEB. 1981
26.	Review of the tariff structure from the point of export promotion	APRIL/MAY 1981
27.	Supply survey brochures on pharmaceutical and auto-leaf spring industries.	APRIL/JUNE 1981
28.	Scheme of national awards for export excellence	AUGUST 1981
29.	Further supply survey brochures	JULY/NOV. 1981
30.	Revision of export compensation schedules	NOVEMBER 1981
31.	Preparation of project proposals for IDA financed consultancy on diatomite, fluorspar, and cinchona processing industries.	JUNE/NOV. 1981

APPENDIX B

IMPORTANT CONCLUSIONS/RECOMMENDATIONS - EXTRACTS

1. POLICY PAPER ON THE DEVELOPMENT OF THE LEATHER INDUSTRY;-

a) Policy Level:

i) The Government may immediately announce its long-term objective of full utilisation of domestic hides and skins in the production of finished leather products in the highest possible value added form.

ii) Pursuant to the above, export of raw hides and skins may immediately be put on an export licensing quota basis commensurate with the past average export performance, the Government making it clear that it intends to reduce the volume of exports every year, the reduction next year being 20% in numbers.

iii) As a disincentive, the current export cess of 3% on raw hides and skins may be raised to an ad-valorem export duty of 10%.

iv) On the positive side, the following export incentives may be announced:

wet blue-crust finished hides and skins......10%
Finished leather............................20%
Leather products............................25%

The incentive on wet blue condition hides and skins being limited for a period of two years only.

v) A list of plant and machinery used in leather processing/finishing and for making leather products may be prepared and import of these machines may be put on O.G.L. The import duty on such machines, if any, may be waived altogether.

b) Operational Level:

i) There is considerable scope for improving the quality of hides and skins. A well co-ordinated programme under the Ministry of Agriculture which will include improved animal husbandry and felling and curing practices may be put into operation.

ii) Efforts of Governmental agencies like the KNTC and KMC may be directed towards promoting exports of finished leather and leather goods.

iii) A leather development council, on which all interests are adequately represented, may be set up to review and monitor the progress of the industry on a continuing basis.

2. REVIEW OF THE ELECTRICAL POWER AND LIGHTING EQUIPMENT INDUSTRY:

IMPORTANT ASPECTS OF DEVELOPMENT:

Planning for power development:

Power is an important infrastructure for economic development, particularly Industry and Agriculture. The generation and distribution of power at the minimal cost, is therefore of utmost importance. Although this is at present being handled efficiently by the E A P L., interests of the company may not necessarily coincide with the national interest in future, particularly when rural electrification work is taken up. It is also important that power development plans are prepared over a longer time frame, than the immediate 5 year plan. Taking this into consideration, the Ministry of Power and Communications may consider strengthening their capabilities in the relevant areas.

Standardisation of equipment:

With the setting up of the Kenya Bureau of Standards, the work of developing standards to suit local conditions can be expected to receive an impetus. Formulation and adoption of standards in this area is very important from the safety aspects as well as for development of local manufacture. Sufficiently high priority should be given by KBS to this work.

Production planning and protection from imports:

On account of the high level of technological inputs and the limited internal demand, special efforts would be called for to stimulate the growth of electrical manufacturing industry in the country. These would include phasing of purchases, protection from imports, and close follow-up of new projects. This can be achieved by keeping a check on the import proposals and technical co-ordination with the power company, and a close monitoring of new projects by the Industry Ministry.

3. REVIEW PAPER ON ELECTRONICS INDUSTRY:

The electronics industry in Kenya is in its infancy, but has a lot of potential for growth. However, this potential may remain dormant, in the absence of a strategy of development and a policy that gives maximum scope for exploitation of the country's advantages, and has sufficient flexibility to allow for the continuous changes in trends, both in respect of the products and the technology. Such a policy should also stipulate that the duty concessions and other incentives would be available only to the units which commit substancial investments, their production resulting in increasing added value, and employment. For ensuring that the commitments are met, the units should be required to have an approved phased programme of manufacture which will lay down the items to be manufactured, the imported components and import content by value, and the fixed investments to be made year by year, for at least 3 years. As the investments take place and production stabilises, the import content should go down, with possible export earnings in the later years. The programme once approved by the Government, will have to be monitored by a technical department of the Ministry.

4. Project report on the Nairobi Export Processing Zone:

EXECUTIVES SUMMARY

There is an accelerating international trend to set up EPZs for promoting rapid industrialisation. EPZs have contributed to economic development through employment, export earnings, technology transfer, revenue earnings, sub-contracting, and regional development ....(Chapters 3.1.3 and 3.1.4.)

Scope for import substitution industries is limited. Exports of commodities and agro-processed products have reached a plateau. Share of manufactured goods in exports has declined .... (3.2.1 to 3.2.3.)

The earlier reservations on the setting up of EPZs in Kenya are no longer valid.................. (3.3.2)

KETA had been asked by the Ministry of Finance & Planning to prepare a Project Report.................. (3.3.3)

MEPZ in South Korea has yielded rapid results. Existing EPZs are being expanded and new ones planned........... .... (4.1.3. and 4.1.5.)

A site within the airport complex at Nairobi having developed infrastructure is recommended for the first EPZ............. .... (4.2.2. and 4.23.)

The labour intensive industries selected for the EPZ include garments, sports shoes, electronics assembly, toys, watches and formulations. There is very little export of these products from Kenya at present.................... .... (4.3.2. and 4.3.4.)

Market for the products will be the investors' established markets in other countries.................. ... 4.4.1.)

A 300 acre site in the vicinity of the airport is most suitable... .... (4.5.2)

In order to minimise on capital costs, the construction has been planned over a period of 7 to 10 years for the first stage of developing 100 acres. Out of this, firm commitments need only be made for the first phase of 3 years..(4.5.3.)

Recruitment and training have to be planned properly. The employment at the end of the first stage is estimated at 5,000...(9.2 and 9.3.)

The total investment for the first stage of 7 to 10 years is estimated at 160 mill. K.Shs., while that for the first phase of 3 years is around 75 mill. K.Shs. (At 1979 costs, excluding escalations)........................ (10.1).

International finance agencies have recently assisted similar EPZs in other countries. Financial assistance may also be available from the bilateral aids................(10.3.2.)

The project is viable, as the costs and benefits including foreign exchange earnings are comparable to those obtaining at the other successful EPZs...................(10.4 and 10.5)

5. Review of the fruits and vegetables processing industry:

CONCLUSIONS AND RECOMMENDATIONS:

Conclusion 1

From the study, it is apparent that the larger sized plants, that is Kenya Canners, Pan African Vegetables Products Ltd., Kenya, Cashewnuts, are doing reasonably well in terms of capacity utilization and, exports. It is the small sized plants which seem to be in difficulties. Their capacity utilization is very low. Their exports are practically nil. And it is apparent that they are also having financial problems. Inadequate supply of agricultural raw materials is the single major factor responsible for underutilization. Except for the plants having captive estates, the capacity utilization of all others is low i.e. between 20-30%.

Recommendations

To mitigate the difficulties of the small sized plants and for better utilization of installed capacities the following steps are suggested:-

(a) It is recommended that a crash programme of intensive cultivation of high value fruits and vegetables in the surrounding areas of the existing plants is taken up and implemented. This will, in time, ensure stabilisation of supply prices and quick delivery of farm produce to the factory gate, a factor in quality enhancement.

(b) Conduct a survery of the operations of individual plants to determine their efficiency in relation to process of manufacture and identify the needs of the balancing equipment.

(c) Where additional equipment has to be imported to enhance efficiency the Government can give a fiscal incentive by allowing such imports free of any import duty or sales tax, subject to a ceiling to be determined.

(d) Depending on the findings under item (b) a scheme under which practical guidance and expert advice can be made available to these plants could be established. One of the ways is to resort to short-term assignments of specialists to be stationed at each of the plants for rendering assistance to the units if the firms involved request for such assistance.

Conclusion 2

The export marketing of products manufactured by the major companies is largely conducted by their parent companies or major partners. This situation is not satisfactory, since in the event of termination of such arrangements for one reason or the other, the company would automatically lose the market or would have to incur a lot of expenses before the market is regained.

Recommendation

Local private or public agencies should be developed so that they participate in the export marketing of products in addition to the existing marketing arrangements. This would require a company by company approach, and negotiations at a sufficiently high level.

Conclusion 3

The firms manufacturing products for the local market are generally over-diversified and seem to realize lower margins than the specialized firm, both in domestic and export markets.

Recommendation:

Unnenecessary over-diversification should be discouraged in order to increase efficiency, thereby lowering costs and consequently leading to low prices to consumers.

Conclusion 4

Seasonality of raw material is prevalent where the supply comes from small scale farmers who are solely dependent on rain for their production. This unstable supply results in uncertainties, and possibly exploitation of the farmer during the glut periods.

Recommendation

All efforts should be made to provide irrigation facilities to the growers so as to ensure uniform supply of raw materials to the processing firms, and reduce raw material price fluctuations.

Conclusion 5

When processing firms are entirely dependent on their own estate production of raw materials, the benefits of setting up of the plant, either in the form of indirect employment or through raising standards of living, are much less than those from a co-operative processing or an outgrowers' scheme.

Recommendation

When approving future processing plants, preference should be given to those promoted by growers' co-operatives or having a firm outgrowers' scheme integrated with the proposal. In any case, the extent to which cultivation on own nucleus estate is to be allowed, should be carefully evaluated in each case.

Conclusion 6

Experience has shown that integration of cultivation, extension, and production, and proper screening of technology are important prerequisites for the success of a processing plant.

Recommendation

In this direction, the following steps are suggested:-

a) The Ministry of Agriculture may be closely involved in approving new agro-based projects, through th New Project Committee.

b) To attract investment, the Ministry of Agriculture may formalise the arrangements by setting up a unit for co-ordination and establishment of the necessary infrastructure at places where such plants are to be located.

c) The Government should screen each new proposal for investment in this sector from the point of view of:-

    i) Appropriateness of technology;

    ii) Matching of capacities;

    iii) Capital costs and availability of inputs.

d) The Ministry of Commerce and Industry may, in consultation with the Ministry of Agriculture, work out a model contract with the prospective investors in this field, particularly multinations, in view of the experience gained so far. This should be done after acquainting ourselves with contracts and agreements entered into by such companies in the developing countries.

Incentives to attract investment and promote exports

Apart from the organisational and administrative streamlining suggested above, certain decisions at the policy level are necessary to establish this industry on a sound base. These should include the following:-

1. Where the company seeks nucleus estates, the Government should endeavour to lease land capable of providing about one-third of the firm's requirement at full capacity.

2. The manufacturers and exporters of canned products should be allowed duty-free import of tinplate for export production. To ensure that there are no malpractices, a bond system by which it can be ensured that all such goods so produced are exported, should be worked out. KETA is already working on a general scheme for duty-free import of raw materials for export manufacture.

3. The companies utilizing sugar in their manufacture should be allowed to import such sugar at international ruling prices, and if locally available at reasonable prices.

4. Special rates of export compensation may be made applicable for the new plants for a period of three years from commencement of production, as compared to old plants. This would enable the new plants to:

   i) Export right from the first year of establishment;

   ii) Operate at higher capacity utilization in the initial years.

   These incentives should supplement the existing 20% investment allowance which is available for the plants established in the rural areas.

6. Review of the automobile and auto-ancillaries industry:

SUMMARY:

a) The Ministry of Commerce and Industry had requested KETA to undertake a study of the Automobile and Auto-ancillaries industry with a view to determine as to how best Government policies can be adopted and implemented to develop this industry further. The planned development of the industry includes expansion, diversification of the ancillary units, and exploitation of the export market in the surrounding countries.

b) The automotive sector in Kenya can be sub-divided into three main groups, viz. commercial vehicles (including lorries, trucks and buses), passenger cars, and motor cycles and three wheelers. The auto-ancillary industry is another sector on its own. This paper covers these sub-groups of the industry.

c) On an average, 11,000 commercial vehicles (partly assembled), 8,000 passenger cars and 1,700 motor cycles and three wheelers are imported every year. The impact of the automotive industry on the national economy is however much greater than merely the costs of such imports, as it substantially affects the demand for crude petroleum. This fact is clearly indicated by the 1977 consumption of motor spirits alone, which was as high as 270,000 tonnes.

d) There are three operating motor vehicle assemblers in Kenya (Leyland at Thika, General Motors at Nairobi, and Associated Vehicle Assemblers at Mombasa) with a total assembly output of about 12,000 commercial vehicles with a total investment of about 140 million K.Shs. The product mix ranges from 3/4 tonne combis through pickups to 10 tonne trucks. Leyland also assembles FWD vehicles. There is no local assembler for passenger cars.

e) The local added value in the assembly plants is between 15 and 20%, and the plants employ a total of 1,550 employees, both skilled and semi-skilled. Prices of locally assembled vehicles are stated to be 20% higher for light commercials and about 8% higher for heavy commercials, compared to prices of similar imported models.

f) In two of the assembly plants, the Kenya Government owns the controlling share (51%) of investments. In the third plant (Leyland) the Government owns 35% of the investment.

g) In their agreement with the Government it is understood that all the three companies have committed to a manufacturing programme of three phases:-

i) First phase of fully assembled/SKD vehicles which is over.

ii) Second phase of assembly from unitised CKD packs is in progress or nearing completion.

iii) The third phase of assembly from full CKD packs, for which there is no fixed timetable.

h) Having regard to the economic benefit of local assembly of commercial vehicles in larger numbers, a rationalisation programme involving reduction of types and sizes, is recommended. In this programme, each of the most popular ranges in demand (1 - 1½ ton, 3-3½ ton, 7-10 ton) would be assembled by two assemblers to avoid any monopolistic situations. As an incentive the government may also guarantee the continuation of the present ban on imports of commercial vehicles up to 10 ton capacity and grant a 100% remission of import duties on components for assembly. Such a programme would encourage local assembly and boost a rapid development of ancillary industry.

i) The passenger car sector caters for personal transportation needs. Analysis of this sector reveals that the present stock of 80,000 cars is made up of numerous types, models and sizes and this figure is estimated to grow at the rate of 10% per year. This present status of the sector thus highlights the urgency of adopting a rational approach to the personal transportation needs.

j) The most efficient vehicles for meeting the above needs are buses, taxis and low cubic capacity passenger vehicles, in that order. The government should adopt policies to encourage further utilization of these modes of transport. These policies would include strengthening the Kenya Bus Service fleet, organising school buses, increasing the number of other bus and minibus operators in the country and policies to discourage use of medium sized and large size luxury limousines.

k) Duty and sales tax policies imposed on imported cars have been the major government action in trying to discourage extended use of medium and large cars. However, to discourage imports of large cars further, it is recommended that duty differential between cars up to 1200 cc. capacity and those of higher engine capacity should be much widened. Even then, it may be worthwhile to standardise on a model in the low consumption range, and preferably assemble it in one of the present plants. The use of all other cars can be restricted by allowing import of only one type of larger capacity passenger cars, such imports having to bear a very much higher import duty than at present.

l) The auto ancillary sector has been developing steadily over the last few years, and the recommended rationalisation of the motor vehicle industry would boost this development further. The development would however be best achieved by phased programmes starting with ancillaries requiring only simple technology (such as exhausts and silencers, shock absorbers, wiring harness, etc.) to components requiring intermediate technology (such as friction material, brake assembly, engine valves, spark plugs, etc.) until stage by stage local manufacturers become capable of manufacturing components requiring high technology.

m) So far, the only exports in the automotive and auto-ancillary sectors has been that of buses to Uganda, and some ancillaries to the neighbouring countries. These exports have been on order basis and do not amount to any substantial foreign exchange earnings for the country. However, with the appropriate inputs from the Government, the industry can now be geared towards increasing its export to the neighbouring countries. Some of the necessary steps have been suggested above, but to encourage exports, the government should evolve an export incentive policy as the industry develops through the different plhases and levels of manufacture.

n) To implement and monitor the policies recommended in this paper, it is recommended that a technical wing may be formed in the Ministry of Industry.

7. Exploitation of Lake Magadi Soda Deposits for Exports:

CONCLUSIONS AND RECOMMENDATIONS:

It is desirable that a rational plan of action is formulated to derive maximum benefits from the Trona deposits at Lake Magadi. Such a plan will have to take the historical developments, current negotiations, and the future international prospects into account. After taking into account all these factors, the following course of action is recommended:-

MAGADI EXPANSION D P R:

The consultants preparing the D P R should be asked to evaluate the alternative economics of (i) Strengthening the Railway and Port handling capacities to carry 500,000 tons of Soda Ash per year, the projected expansion capacity of Magadi Soda Company. (ii) Strengthening/augmenting the capacity to carry 1,000,000 tons of soda ash per year, so as to provide the infrastructure and attract other mining companies in the area. (iii) Pipeline transport of 1,000,000 tons of solutions per year to the Coast, for refining and export.

Magadi Soda Company Negotiations

While the Government may finalise its participation in the new company on the basis of the shareholdings negotiated so far, the payments in cash and the compensations to be paid to the existing I.C.I. subsidiary should be determined after an independent audit of the Company's books and assets, and in consultation with the World Bank.

Rights and privileges of the new company should conform with the practice obtaining in other countries. In particular, (i) The lease area should be defined and earmarked. It need only be a reasonable area of the deposit, and not the entire 40 sq. mile expanse. (ii) The period of lease need not exceed the statutory period of 21 years, as provided in the Act. The lease agreement should, on the contrary, provide that it will automatically lapse, if not exploited within a reasonable period. (As provided in the U.S. mining leases). (iii) The lease payments should be brought in line with those prevailing for the U.S. mining leases). (iv) The current royalties (½%) are too low. The payment should be revised upwards to match the U S. earnings of 5%.

The Government must decide whether it wants to monopolise the export marketing of the Soda products through KNTC or otherwise. If the marketing is not to be through a parastatal, then it should preferably be done by strengthening the marketing department of the company. As a last resort, if marketing is to be done by I C I., there is no harm in paying a commission, provided there is a matching obligation backed by penalty clauses, to market all the products produced at economic prices.

The payment of 1% pretax profits to I C I for supply of back-up technical services seems reasonable, and may be agreed to.

MAGADI LAKE LEASES

The remaining areas of Lake Magadi should be leased out to other internationally renowned chemical companies for exploitation. The terms and conditions must be drawn up in advance, and the lots need only be of an economically viable size, to be determined by the consultants.

After the above has been done, the Government should invite bids from interested large chemical companies, including the following:-

i) F.M.C. Corporation, U.S.A.
ii) Allied Chemicals, "
iii) Stauffer Chemicals, "
iv) Texasgulf Inc., "
v) Kerr-Mcgee Corp., "
vi) Solvay & Cie, Belgium
vii) Rhone Poulenc, France
viii) Tata Chemicals, India
ix) Asahi Glass, Japan
x) State Corporation, Rumania

MASTER PLAN:

Magadi Soda is an important natural resource with potential to earn foreign exchange of over 50 mill K£ by 1985, and form the base for a number of other industries. A long term master plan for utilising the resource to the optimum should therefore be prepared. Some of the elements of the plan should include:-

i) Expansion of the existing company with joint Government participation.

ii) Establishing other new companies on the basis of the leases to be granted to them.

iii) Infrastructure strengthening of the transport and port handling facilities.

iv) Setting up of Soda Ash based industries (Glass, Phosphates etc.), as viable.

8. Manufacture and export of artificial fishing flies:

CONCLUSIONS AND RECOMMENDATIONS

It must be clear that given proper considerations and incentives, the industry can flourish, earning foreign exchange and providing employment to the rural population. It is already providing employment to over five hundred rural people, with prospects of this number increasing to one thousand in the near future. There is a significant global market for its products, which is rising.

Hooks, special threads, and chemicals, are the main raw materials which account for about 40% of the total cost. These have to be imported, and the duties on these are quite high (30 to 40%). It takes a long time (over 6 months), to secure refunds or the 20% incentive compensation and this means blocking of funds. The industry being small enterprise oriented, the blocking of funds creates cash flow problems for the entrepreneurs. In view of the above, following measures are recommended:-

a) The major raw materials are hooks, special fancy tinsel, threads, and dyes, which will not find much use for any other purposes. The customs duty and sales tax on these items imported by the identified and approved manufacturers of fishing flies should be reduced to zero. They should, in addition, be eligible to claim the normal 20% incentive compensation.

In order to achieve this, the following tariff amendments may be made:-

Existing entry:

Tariff No. 97.07.001

Artificial flies for fishing - import duty, 50%

Additional Entry

Tariff No.97.07.002:

Components of Artificial flies for fishing (hooks, special tinsel, threads, dyes etc.
- import duty, 10%.

b) The fortunes of the industry are solely dependent on the sports fishing industry. It is necessary to carry out a scientific market study, to determine the long-term prospects of the industry in the next four or five years. The market survey should identify the most appropriate strategies and the trends in designs. The study should also recommend possible lines of diversification.

c) Special assistance should be given to the propriators of the undertakings to streamline their paperwork. This should include the procedure involved in obtaining import and export licences, filing the returns, etc.

d) The problem of supplies of local materials should be taken up with the Ministry of Wildlife and the Livestock Deparment. The wardens and the people working in the game parks should be directed to collect specific feathers and skins of dead animals for auctioning and supplying to these units. Likewise, a system of making available the confiscated skins, furs and feathers to the approved units in the industry should be evolved.

APPENDIX C

IMPORT TARIFF, REMISSION OF IMPORT DUTIES AND SALES TAX AND THEIR IMPACT ON INDUSTRIAL PRODUCTION AND EXPORTS

CONCLUSIONS AND RECOMMENDATIONS:

To summarise, the following recommendations are for consideration:-

THE CUSTOMS TARIFF STRUCTURE:

It is recommended that an interministerial committee be set up to review the tariff structure, sector by sector and industry by industry, to realign the duties on items of machinery, intermediates, raw materials, and other industrial inputs in such a manner as will stimulate production and exports with minimal controls and physical restrictions.

The committee should have representatives of the Economic Ministries on it, and should preferably be headed by Permanent Secretary in the Ministry of Planning or the Treasury. It should be empowered to consult the trade and industry as required.

The Industry Ministry should compile and supply data/statistics on investment, capacity, production, employment, exports, imported inputs, scales and costs of production for each industry being examined by the Committee. The Treasury/Customs should likewise compile and supply statistics of imports/exports and past revenue earnings for the items under consideration, the Commerce Ministry furnishing data on export markets and possibilities.

The Committee should review the tariff structure industry by industry, the priority being determined by the Chairman.

REMISSION ORDERS OF A TEMPORARY NATURE:

Issuance of such orders would not normally be necessary for the industries reviewed by the Committee and where the tariffs have been altered as recommended by it.

Even where they are necessary, such orders should not be post-dated, and should be applicable for the whole industry and not a single company.

REMISSION ORDERS OF A PERMANENT NATURE:

The existing orders should be reviewed by the Committee, and either revoked or replaced by orders giving the benefits to all the units in an industry.

The need for issuing such orders in the future will diminish, once the tariff structure review has been completed.

REMISSION ORDERS FOR PROMOTION OF EXPORTS OF MANUFACTURES:

Export products requiring imported inputs and where such products are primarily for export (more than 90%) should be identified and the existing customs and sales tax duties on their capital equipments and raw materials should be remitted in full through special remission orders, pending their regular realignments as s[illegible]ted above.

Two such industries (Pyrethrum Extractions and Artificial F[illegible]ing Flies) have been identified, and the draft of the remission order has been indicated above.

In respect of other industries where only a part of the production has been exported, the Customs Duties and Sales Tax paid or payable on the raw materials used in that part of the production which has been exported, should be remitted. Draft of the remission order has been included above.

In addition to the remission recommended above, the companies should be eligible to claim export compensation in the normal course. These concessions and the realignment of the import tariff will give a major impetus to the export effort.