EXTERNAL TRADE IN KENYA
PROCEDURES, PROBLEMS AND PROSPECTS
EXTERNAL TRADE IN KENYA
PROCEDURES, PROBLEMS AND PROSPECTS

BY

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INTRODUCTION

The world economic balance in the present day, is interdependent, to a large extent, on the individual countries' imports and exports. In view of the advancement of science and technology and industrialization, communication systems and the current consumption patterns coupled with man's keenness to exploit and harness natural resources to the fullest economic advantage, there is hardly any country today, which is not dependent upon foreign countries for external trading.

As a consequence, the highly industrialised western countries, classified as First World, by their sheer affluence and abundance in Gross Domestic Product (GDP)\(^1\) enjoy an advantageous position to exchange their produce and hence, their international trade is constantly increasing leading to further increase in their national wealth, and this has been a significant factor in ever widening gap in the standard of living between these advanced nations and the Third World. Since the factual information about the Second World countries - the communist block - is not available, the study and discussions of "external trading in Kenya" is

\(^1\) Gross Domestic Product (GDP) - the total monetary value calculated at market prices of final goods and services produced in an economy over a given period of time, typically one year.
largely in the context of the prevailing conditions in Third World countries, and, sometimes, drawing comparison with the First World.

The economic strength of a country is determined by the quantum of goods and services generated within the country and the nett gross wealth available for consumption, termed as, Gross National Product (GNP) which includes the "foreign exchange" component earned by exporting its goods and services. In order to maintain the internal production cycle and to export the produce, the non-availability or scarcity of certain resources, such as, raw materials and other inputs, services, know-how and the like; or desirability of deriving economic benefits by procuring certain resources from abroad, importation

2 According to the United Nations classifications, the developed advanced countries are termed as First World; the communist block—the socialist countries are termed as Second World; whereas, the poor developing countries are termed as Third World. A total of 118 countries have been classified as Third World of which 96 countries are full members of the U.N.O. — Kenya is one among these.

3 Gross National Product (GNP) — the sum total of all incomes that accrue to the factors of production in a particular geographical region over a given time period — i.e. GDP 'plus' all income that accrue to residents of that region from their investments in foreign countries 'less' income that accrue to foreigners as a result of their investments in that region.
is necessary which, results in paying back the foreign exchange earned through exports. Thus the nett difference between the value of exports over a period of time, and the value of imports during the same period, termed as 'balance of payment' situation of a country, serves as an indicator of economic strength of that country in the international trading circles the favourable situation resulting in 'surplus' and unfavourable situation resulting in 'deficit' balance of payment.

The external trading activity throughout the world, in varying extent, is influenced by the political and ideological factors also. In developing countries inflow of foreign exchange takes place, quite often, in the form of development aid, donations, soft loans and the like from developed nations. Although this type of assistance is supposed to be free of any political undertones, purely for economic development of donee countries, no such help is given without any 'strings' attached to it and, it is very rare that this type of assistance is utilizable by the developing countries with unrestricted freedom. Therefore, dependance on such economic assistance impedes the efforts of Third World countries to build a self-reliant and self generating economy.
In socialist block countries, export and import trade is dictated by the political masters in keeping with their commitment to the doctrine of controlled economy; and some Third World countries are used as 'dumping grounds' for their merchandise. No reliable and useful data or information is available from 'behind the iron curtain' as to the actual procedures, regulations and controls, vis-a-vis, the bilateral trading activity with the free world.

Except in the communist block, in developed as well as developing countries the degree of governmental controls for external trading varies depending upon the extent of free enterprise enjoyed in the country and the necessity dictated by the prevailing local conditions. However, since the principle of 'Laissez Faire' system of trading no longer exists, every external trading activity needs to be approved by the governmental authorities and obviously such controls (licensing, foreign exchange allocations, industrial/trading protections, etc.) are in accordance with the socio-economic goals of the country and other aspects of national interest.

4 Laissez Faire: Literally 'allow to do' an expression often used to represent the notion for free enterprise, market capitalism.
In Kenya the import and export procedures, controls and policies followed are, to a large extent, similar to those existing in other commonwealth countries, such as, in India and Pakistan. The study and dissertation of this work extends much beyond the procedural aspects but, however, the inherent loopholes and deficiencies in the existing procedures are also highlighted in the following chapters.

In the first chapter, the normal procedures to be followed through governmental bodies and other agencies and certain basic appreciations required for import-export trading are discussed. A broad outline in the form of an overview is given on this aspect necessarily avoiding the details of documentation procedures and other formalities for the sake of brevity. In the second chapter the role of agencies, such as, the Kenya Chamber of Commerce and Industry (KCCI), Société Générale Superintendence (SGS), Price Control Authority, Insurance Agencies, Clearing and Forwarding Houses are discussed. In the following chapter the problems faced by the trading sector, the weaknesses of the procedural systems are highlighted, and also suggestions are made as to how the existing loose ends could be tied up, and also, this chapter contains the information regarding the Marketing
and Finance facilities available for external trading. The fourth chapter comprises of the study of the prospects available in the country for increasing export trade, by harnessing the available indigenous resources so as to achieve rapid industrialization and faster economic growth. It also contains recommendations as to the support facilities in the form of financing, marketing and other assistance that should be made available to this important sector of economy to boost external trading efforts. In conclusion, the meaning of development in the Third World is discussed with particular reference to the prevailing situation of high inequality in income distribution in Kenya.

The export trade is generally divided into three product categories, namely, Primary product, Secondary product and, finally, the Tertiary product. The Primary products are the goods obtained from agriculture and raw materials obtained from natural resources. In Kenya these products are coffee, tea, pyrethrum, sisal, etc. The Secondary products are manufactured goods which may be from large, medium and small scale industries, and handicrafts. The Tertiary products are the exportation of services, such as, technical know-how, consultancy and advisory services. In Kenya organised exportation of primary products is existing since a
longtime, right from the early period of colonialism. These products are promoted, marketed and also financed by several parastatal and other bodies. These products are enjoying established foreign markets and the prices are determined at international level depending upon the world's supply and demand situation. For instance, Kenyan economy enjoyed a 'coffee boom' period during 1976 since the coffee crop in Brazil was destroyed due to attack of fungus and frost. Insofar as tertiary product is concerned, the country has not yet developed to an extent, wherein, it can provide such services. Therefore, the obvious solution for the development of Kenya's economy through export trade lies in Secondary products - its manufacturing sector, hence, this thesis is prepared with reference to Secondary product. It is relevant to mention at this stage that the writer has developed this thesis, drawing more from the first hand experience gained as a result of direct involvement in external trading in the country over the last two years, rather than as a scholarly dissertation with reference to an extensive bibliography. The situation prevailing in Kenya has been compared and assimilated with the writer's vast industrial and trading background in India, in formulating the recommendations to promote export trade. This comparison with the Indian situation is considered very relevant, since, India has achieved spectacular
success, among the developing countries, in foreign trade because of its established sound industrial base. Since this work is based on a pragmatic approach to the real situation, the writer sincerely hopes that some of the recommendations contained in this paper will be implemented by the authorities - that - be, in very near future.
CHAPTER I

PROCEDURES INVOLVED IN EXTERNAL TRADING

1. Procedures for Importation

The first step towards proceeding to import any item into the country is to obtain import licence from the Ministry of Commerce and Industry - Trade and Supplies Branch. If the licence required is for machinery and other capital goods from abroad, the application for licence has to be routed through the Director of Industries and Commerce.

The raw materials and various consumable items have been categorised under two broad headings - (i) open general licence category, and (ii) restricted items. Within these categories the items permitted for importation have been assigned different tariff codes to identify the items which attract varying import duty; and exemption or otherwise of sales tax levy at the time of clearing the goods inwards. For instance, the import (customs) duty which may be either 'specific' or on 'ad-valorem' basis is on

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The words customs, imports & excise; all carry the same connotation. This levy which is also termed as duty is one of the sources of revenue to the Government. 'Specific' duty means, certain fixed amount per unit of the goods; e.g. Shs.70/- per bottle, whereas, 'ad-valorem' means a certain percentage of the c.& f. value of the goods.
an average 30 per cent for semi-finished goods which
go into manufacture of finished goods for ultimate
consumption, while the duty on raw materials and
other inputs for industry is 20 per cent of the
taxable value. Items under open general licence
category are normally allowed for importation by manu-
facturers, traders and other users (who hold
manufacturing and trading licence), after assessing
the genuineness and requirement of the applicant.
Restricted items are those which are normally allowed
for importation in order to provide protection to,
and encourage growth of indigenous industry and trade,
and to safeguard the interest of national economy,
social goals and other aspects. To obtain permission
for importing these items, extremely difficult
procedures have been prescribed and, licence is
granted for such items only under exceptional cases.
(Banned items are not allowed to be imported into
the country and such imports are illegal).

After obtaining the licence to import the
goods, the importer should apply to the Central Bank
of Kenya - Exchange Control Department, together
with the offers received from the foreign suppliers,
such as, proforma invoice, quotation; for obtaining
the foreign exchange allocation (FEAL). After
scrutinizing the application the Bank grants the
allocation (in part or full) and allots a FEAL
number after collecting a fees, which is normally one percent of the value of the foreign exchange allocated.

The importer can now place the firm purchase order on the supplier abroad together with a copy of the import licence endorsed by the Central Bank. The different methods and procedures involved for remittances in external trading transactions are discussed after explaining the procedure for exportation in the following article.

2. Procedure for Exportation

Like in importation, exportation of goods is also subject to some restrictions although to a relatively lesser extent. Such restrictions are only to check the unscrupulous traders from exporting scarce and strategic materials. Also exportation with some countries is not permissible because of economic, political and other reasons. The tariff codes, SITC, are applied here also to identify whether the items intended to be exported are banned items (such as food stuffs, arsenal, etc.) or not.

If the intended exporter is an established manufacturer or trader holding a regular export licence issued by the Central Bank, each time
an export transaction is proposed to be effected the exporter has to approach his banker (who should be an authorised commercial bank in Kenya) to intimate them of the proposed foreign exchange transaction involved and then, approach the customs authorities for getting clearance for exportation. If the exporter is other than regular export licence holder, for each intended export transaction, clearance from and approval of the Central Bank is required.

The Customs Commissioner keeps the Central Bank's exchange control section advised of the full details of permission granted to export the merchandise. After the payment for the export transaction is received through external sources, the exporter's banker advises the Central Bank of the satisfactory completion of the transaction. The onus of fulfilling the foreign exchange control regulations, namely, providing the required proof and documentary evidence of having despatched the consignment outside the borders of Kenya and of having received the invoiced value against the transaction through external sources is the responsibility of the exporter. There is no guarantee provided by any governmental authority for export credit or any form of export credit insurance available to the exporter in Kenya. Any default to fulfill the above explained regulations will result in the
cancellation of export licence and will render the exporter disqualified for any further export business besides attracting other penalty measures. The Government has instituted this procedure to ensure that the foreign exchange is received in the Exchequer, and also, the exporter is required to produce this proof at the time of claiming export compensation in the form of duty drawback or export incentive.

3. **Modes and Procedures for Payment against Imports/Exports**

   (i) **Letter of Credit:**

   Most of the external trade, throughout the world, is carried out through the documentary credit through the recognised banking channels.

   The letter of credit is a document issued by the importer's banker, in favour of the beneficiary (the exporter of the merchandise normally through an authorised correspondent bank at the exporter's place, irrevocably (or otherwise) undertaking to pay the exporter the specified sum of money, after despatch of the specified goods as per the terms of contract. The amount becomes payable by the confirming banker immediately after despatch of the goods if the terms of payment are 'at sight' or, after a lapse of an agreed period of time which may
be 30/60/90 days or more, from the date of shipment. The exporter has to present all relevant documents, such as, the original invoice, proof of having consigned the goods - bill of lading, road transporter's certificate of goods receipt, air way bill etc., as the case may be, certificate of quality and quantity by the competent authorities as previously agreed upon, and other documents as mentioned in the Letter of Credit, together with the original Letter of Credit itself, to the satisfaction of the negotiating bank. Therefore, the Letter of Credit becomes a negotiable instrument, in a stricter sense, subject to terms and conditions stipulated therein.

A Letter of Credit may be drawn on a specific consignor to export the goods/services or it may also be a transferable Letter of Credit, in which case, the holder of the L.C. can transfer the credit and authorise any other competent party to export the goods or services.

The negotiating bank usually adds its own confirmation to the terms of the Letter of Credit, before passing on the document to the beneficiary, if the remittance against shipment is to be made in exporter's local currency. However, if the payment is to be effected in a third country's
convertible hard currency, such as, US $, Sterling £, etc., the importer's bank authorises their associate or scheduled bank in the respective third country - the U.S.A., the U.K., as the case may be, to effect payment to the consignor of goods; in which case, the correspondent bank at the exporter's place acts as a sort of go-between to verify the correctness of the transaction and, therefore, does not add its confirmation. Usually the East European and other socialist block countries trade with Kenya and other developing countries in convertible hard currency. Sometimes trading on 'barter' basis, and also, in soft currency payments takes place, but, these are exceptional deals at Governmental level.

In Kenya the exporter should receive payment against the exportation within a maximum period of three months from the date of despatch of the merchandise. For importation of items other than raw materials and certain essential commodities, the importer has to deposit with the Central Bank of Kenya

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6 If a longer credit term is to be allowed written permission from the Central Bank of Kenya is required. Refer Central Bank of Kenya 'Notice to Exporters' vide their No.CBK/EC/3 dated 25th February, 1980.
an amount varying from 20 per cent to 100 per cent of the indicated C. & F. value of imports. However, if the importer can obtain credit terms of minimum 180 days from the exporter abroad, this condition of requiring initial deposit may be waived.

(ii) **Bill of Exchange (Draft):**

In this mode of payment, the importer enters into an agreement with the exporter to pay the value of the imported goods upon arrival of the merchandise at destination. The payment is transacted through normal banking channels as per the respective country's Central Bank regulations in order to keep track of the foreign exchange dealings involved. The procedure involved in this case is that the exporter draws a 'Bill of Exchange', also called 'Draft', on the importer, for the value of the goods sold and forwards this document together with the shipping and other concerned documents through his banker to the importer's banker. The importer is required to honour (signify the acceptance of the liability by signing his name across the Bill of Exchange) these documents before taking delivery of the goods imported. In this form of transaction also, the payment may be at sight or after a period as previously agreed; in the former case the importer obtains possession of the delivery documents against payment (D/P - Delivery against Payment) or
accepts liability to pay after a specified period after signing and obtains documents for delivery (D/A - Delivery against Acceptance).

In view of the exchange control regulations in Kenya, as explained earlier, export dealings on this terms of payment are risky. (Normally, for small values, external trading takes place on sight basis). In Kenya external trading transactions on this basis are carried out between well known business establishments enjoying reputation for their creditworthiness and prompt dealings to avoid the possible risk of default in payment or even default in honouring the transaction itself. When the transportation of goods is through shipping lines/airways, the procedure of presenting and honouring the delivery documents through the respective banks and customs and excise authorities is followed conveniently. But, in case of trading with landlocked neighbouring countries where the transportation is very often through private road transport operators, it is very difficult to have the protection of banking system.

In case the documents are dishonoured by the importer, the local exporter is exposed to a serious risk of even jeopardizing continuity of export business in view of the Central Bank's regulations.
Also, if the payment is defaulted by the foreign buyer, the local trader has to suffer lengthy procedures in seeking legal remedy - a strenuous procedure of 'registering protest', etc., involving government level intervention and prompt follow up by the concerned bankers.

Nevertheless, there is quite a sizeable amount of external trading transacted, under this mode of payment in several other countries, in view of the other support facilities, such as, credit insurance, etc., (which is discussed in the fourth chapter) available in those countries. This mode of payment is invariably accepted between well known parties having common interest and mutual trading arrangements. The advantage in this system is that, it saves the time and efforts to go through the formalities of opening the Letter of Credit.

(iii) Open Account Payments and Cash Payments:

Open account mode of payment in external trading (as the case may be) from the date of statement - a system prevailing in Kenya for local business transactions among the creditworthy and known - to - each - other parties. This system is invariably followed in external trading among intercompany
transactions and other known parties where the risk is protected in some other form.

External trade in cash payment is carried out in comparatively small scale to a limited extent. When a stranger needs to buy certain goods at short notice, he brings convertible, foreign currency (acceptable to the seller's country's regulation) to the place of purchase after duly undergoing the exchange control formalities at the point of entry to the country in which the purchase is intended to be made. However, all other formalities remain unchanged whatever be the mode of payment adopted.
CHAPTER II

ROLE OF OTHER AGENCIES

1. Insurance Coverage

It is a normal practice to provide insurance cover to the merchandise in transit to protect the importers' interest. The insurance company/agent (the insurer), undertakes to indemnify the insured party, for the value of goods invoiced, against any possible loss or damage that may be caused to the cargo in transit, for a consideration received as premium. The insurance cover is provided, generally on godown to godown basis, which means, the insurer agrees to indemnify the insured against all possible risks (mentioned in the insurance bond) that may occur from the point of actual despatch from the premises of the exporter to the point of ultimate destination, that is, the premises of the importer, in the course of transit over sea, air or land, including transhipment, loading and unloading and inspection checks. Some insurance agencies even provide insurance cover for more hazardous risks, such as, war, strikes, riots and the like, and the premium charged for this type of insurance cover will be higher than that charged for normal risk indemnity.
Until recently, the insurance cover could either be arranged by the seller and invoice goods on c.i.f.* basis or by the buyer in which case, the seller would invoice on c. & f.* or f.o.b.* basis. But, now as per the recent Geneva agreement of GATT (General Agreement on Trade and Tariff), it is the responsibility of the buyer (the importer) to arrange insurance cover.

Unlike insurance cover for automobiles for personal and commercial purposes, the insurance cover for merchandise in external trading—marine cargo insurance, air cargo and road transport insurance—in not mandatory. However, it is in the interest of the importer to insure the goods against possible risks since the merchandise undergoes a hazardous journey from one country to another. Usually marine cargo insurance for importation of large volume goods is done in all cases, whereas, for road transport and air transport, insurance is arranged on a selective basis.

2. **Clearing and Forwarding**

When the imported goods arrive at the point of entry into the country, collection of goods within the stipulated time from the port of discharge to avoid incurring demurrage charges, involves quite

* see Appendix I, for explanation of these terms.
a bit of routine procedural work, such as, payment of freight, if necessary; customs clearance after payment of customs duty and sales tax, as applicable; requires proper attention to follow up these activities effectively. After clearance, proper transportation should be arranged for reaching the goods to the importer's godown promptly.

In case of exportation, collection of goods and arranging proper transportation and correctly following the customs entry and other documentary procedures at the country's border check points, etc., needs thorough attention.

Except in case of very small scale business, where the transportation is done by private transport operators, most of the manufacturers and traders entrust this responsibility to the established agencies who take care of handling, clearing and forwarding duties by charging a nominal amount, depending upon the extent of responsibilities entrusted upon. In some cases, the insurance companies also have the combined activity of clearing and forwarding. In case, any insurance claim arises, the timely action by these clearing agents is very important and, also, these established clearing agents are, to some extent, responsible for getting the insurance claims settled. More about this aspect is discussed in the following chapter.
3. **Société General Superintendance (SGS)**

Owing to the geographical location between the two trading countries, it is extremely difficult to carry out inspection of the merchandise by the buyer's representative before shipment. Also, the professional expertise required to carry out inspection of various goods is a limiting factor to effectively carry out this task.

The pre-shipment inspection, therefore, is carried out by the local SGS authority. The SGS is an independent autonomous body, headquartered in Geneva and having their associate companies in many countries of the world, including a few of the East European and other socialist countries, where the country concerned is in agreement with the SGS and has accorded recognition and provided necessary facilities to carry out this responsibility.

SGS (Kenya) Limited, has its Head Office in Nairobi with a branch office operating in Mombasa. Whenever external trading transaction is effected between Kenya and another country where also SGS is in operation, it becomes conditional that SGS carry out pre-shipment inspection as to quality as per specifications, quantity check and is also required to do price comparison of the goods invoiced. If SGS is satisfied with these requirements,
it issues a certificate called the 'Certificate of Clean Report of Finding' to the exporter. This report forms one of the critical export documents for negotiating payment through official banking channels.

The SGS inspection, therefore, is mandatory and it is the responsibility of the exporter to ensure compliance of these requirements and obtain this 'Clean Report of Findings', even if the buyer himself carries out inspection and quality check. As such SGS involvement is an expressed and agreed condition in the foreign trade transaction.

If the export to, or import from, a country where SGS operations are non-existent, such as, Uganda, the above requirement does not arise.

A critical analysis of functioning of SGS in Kenya, and also, its effectiveness is discussed in the following chapter.

4. **Certificate of Origin**

In all export transactions from Kenya, the exporter is required to submit a 'certificate of origin' from the Kenya Chamber of Commerce and Industry. At present KCCI is the only recognised institution authorised to issued the certificate of origin, by charging a fee, when the exporter presents
the proforma invoice/final invoice. (Regular Exporters are advised to enrol as members of the KCCI since the fees charged for members is at a concessional rate). In some cases the exporter is required to obtain the certificate of origin at the time of making the offer of sale, along with the proforma invoice/quotations, in order to enable the intending importer to obtain the import licence in the importing country. In all transactions that go through normal banking channels the exporter is required to produce the certificate of origin together with the final invoice and other related documents to the local bankers to claim payment against the transaction that has taken place. The K.C.C.I. is supposed to authenticate the fact that, the merchandise offered for exportation, or already exported, was manufactured or produced in Kenya and also verify the price in comparison with the controlled prices as fixed by the Price Controller, Ministry of Finance, Government of Kenya.
CHAPTER III

PROBLEMS

In this Chapter an attempt has been made to give a critical look at the existing procedures and regulations, and highlight the lacunae in these laid down regulations; the misuse and manipulations of these well intentioned regulations and other provisions; the difficulties and problems faced, not only by the trading community, but by the society as a whole, as a consequence of such manipulations, are discussed. The effects of such control measures extend beyond the foreign trade aspect alone and, as such, this chapter will enable the reader to get a bird's eye view of the reality that is existing in Kenya's Industrial Trading Sector today. This analysis is based on the indepth study by, and the factual information available with, the author of the prevailing condition.

In some of the following sections, after discussing the prevailing situation, recommendations have been made as to how the lacuna could be remedied and loop-holes plugged. Under Marketing and Finance Sections, the existing facilities and arrangements available to the businessmen are discussed. Recommendations to improve and strengthen these two
important areas and other aspects are contained in the next Chapter.

1. Tariff Control for Importation

During the year 1977 Kenya's import bill amounted to K.£531.4 million and in the succeeding year the figure rose to K.£661.1 million.7

The imported items comprise of raw materials and inputs, semi-finished goods, spares, automobiles and other consumables, besides other items. In order to regulate the importation, to conserve foreign exchange, to protect the existing indigenous industry and to safeguard the interest of the weaker section of the society (such as, Farming and Agriculture), the items allowed for importation have been categorised into different tariff codes. The customs duty and sales tax levy is imposed on selective basis in keeping with the above declared objectives of the Government. A few selected items indicating their SITC codification together with the details of customs duty and sales tax levy chargeable, are listed in Appendix II. In classifying the items for SITC categorization, there are instances of glaring anomalies which defeat the very purpose and objective of the whole exercise.

To cite an example, importation of 'Wire Rod' (SITC No. 673.7.11) is allowed as a sales tax leviable item, the levy being 15 percent of the c.& f. value, ad-valorem; whereas, 'Steel Wire' (SITC No. 677.0.410) which is a subsequent product of Wire Rod is exempted from sales tax levy. Wire Rod is manufactured from Steel ingots by hot rolling process, whereas, steel wire, in various diameter sizes, is obtained by a further process of cold drawing the Wire Rod. The manufacturer who imports these rods and also wire uses these items as inputs, for further processing and after selling the finished goods thus produced, (passing on the sales tax to the consumer) obtains sales tax refund since sales tax is leviable at only one point in the entire trading cycle; manufacturer, wholesaler, retailer and, finally, the consumer.

Bulk of the wire rod imported and, also a small quantity produced locally, is consumed by Building and Construction Industry for which, sales tax is leviable. There is nothing to prevent the importer of these materials, be he a manufacturer or a trader, to sell steel wire to the above consumer market by taking full advantage in pricing upto 15 percent of sales tax element without indicating this in the sales transaction. It can
then be claimed that wire rod was used as input for manufacture of finished goods and the manufacturer can conveniently obtain refund of the sale tax levy paid at the point of importation.

It is difficult to differentiate, by naked eye, between wire rod and steel wire, unless certain physical properties and other characteristics are analysed in a metallurgical laboratory. There is no dearth of clever and unscrupulous businessmen in the country who would lose no time in grabbing such opportunities to manipulate and to deprive the country's exchequer of its revenue and amass individual wealth. This anomaly exists for the last three years.

It is estimated that about 1,000 tonnes of steel for reinforcement is consumed in the country per month, and the selling price during the last three years has varied from about KShs. 3,500/- per tonne to the present price of about Shs. 6,000/- per tonne. Leaving the matter as to what proportion of the total quantity of the material consumed has been manipulated, as wire rod to steel wire and vice-versa to anybody's guess, it is then simple arithmetic to work out the quantum of revenue lost to the exchequer.

The right tariff classification should have
been to exempt the basic material 'mild steel hot rolled wire rod' from sales tax levy and, levy this tax on 'mild steel cold drawn wire'. Alternatively, both the items should have been taxed. The writer would recommend the second alternative tariff, since it is more effective and beneficial. It is difficult to include more examples in this paper for the sake of brevity.

The writer only hopes that, this and similar anomalies would be eliminated in the forthcoming National Budget and also suggests that, competent technical advisers be involved to critically review the existing tariff categorization and to prepare accurate technical classifications of goods allowed for importation.

2. **Effect of Price Control Policy**

Price control department in Kenya is a branch of the Ministry of Finance, which is charged with the responsibility of fixing and revising, from time to time as and when necessity arises, the prices of all commodities and, is also vested with the authority to ensure that the commodities are sold within the limit of price ceiling fixed by the Price Controller. There are three levels of selling prices fixed, namely, manufacturers' selling price, wholesale and retail prices, allowing reasonable profit margin
at each point of distribution, within the limits of ceiling. This system implies that the manufacturer is not allowed to sell at the wholesale prices and the wholesaler, in turn, is not allowed to sell at the retail prices. There are two categories of controls - general price control items and gazetted price control items. General categories are those for which, the manufacturer/producer applies to the price controller for fixation of price, giving the details of elements of costs involved and profit margin sought. The price controller may ask for clarification before according the approval and if, however, no enquiry or reply is received by the applicant within 30 days of making such application, from the department, the selling price sought is deemed to have been approved until further revision.

In case of gazetted category, the items are classified as essential commodities and the producer applies for the selling price fixation as in the above case, but the controller after due scrutiny, forwards his recommendations to the Ministry of Finance for approval. The price levels thus approved are notified in the Government Gazette and, only after such publication, the prices become operative until further revision is sought and the revision, if approved, is notified in the Gazette.
The above controls are applicable for domestic sales for locally produced commodities and are supposed to apply for exportation also. But, the check points available to ensure that certain commodities are not exported at a higher price, are at SGS pre-shipment inspection stage where, this authority is expected to carry out price comparison before issuing its 'clean report of findings' and, also at the office of the Kenya Chamber of Commerce and Industry where, the invoiced price is supposed to be verified before issuing its certificate of origin to the exporter. However, there is no administrative co-ordination or legal provision to ensure prevention of exportation of scarce commodities at higher prices than the ceiling limit prescribed by the Price Controller. A recent live example is the item 'Roofing Nail' - A square twisted shank nail of about 65mm long, having 20mm diameter umbrella head spring washer, used for fixing corrugated iron sheets onto the roof of buildings, houses, sheds, etc.; an essential item for the common man in Kenya. The price of this commodity was revised, after about two years consideration, on March 7, 1980, at a level higher than what was expected; Shs.538/95 per bag of 50 kgs: Ex-manufacturer's price. Before this date, the corresponding controlled price was Shs.427/05, including 15 per cent sales tax, and for more than one year, until the last
revision, there was absolute scarcity of this item in the local market. Manufacturers did not sell the commodity in the local market at the controlled price but, they did export this item to neighbouring countries, through legitimate transactions, and realised a minimum nett value of K.Shs. 500/- per unit of 50 kgs.

Even assuming that the authorities are able to stop exportation of commodities at prices higher than the controlled price, it is difficult to appreciate as to why the Government should act against its own interest of getting a profitable return into the country through external funds. Even if the Government decides to sacrifice its interest for the sake of benefitting the citizens, it is impossible to force the manufacturers to sell their products at a loss or at an unattractive profit margin, in a free enterprise system and competitive market situation prevailing in the country.

Price control regulation are understandable for commodities produced by multinational monopolies and exportation can be banned for essential items, such as, food stuff, medicines, etc., at times of scarcity. But in case of manufactured goods, this policy defeats the very objective and purpose intended to be achieved.
Until early 1979, there was no control/regulation, and no licence was required to establish a manufacturing industry in the country. As a result, many manufacturing industries involving low technology and low conversion cost (typical of initial phase of industrialization in developing countries), grew up creating a capacity far in excess of requirement for local consumption as well as to cater for possible export markets. These industries are in the private sector enjoying all benefits of free enterprise in the existing system of mixed economy.

Under the above situation, simple theory and mechanism of demand and supply operates effectively. In a competitive market situation, the price itself acts as an effective regulator, rising when the demand increases and falling when the supply increases and hence, reaching an equilibrium point which satisfies both demand and supply. If the price fixed by the Government is below a point satisfactory to the producer, the supply decreases and the demand increases creating a scarcity situation and, if the price is allowed to rise to a higher level, excess supply situation is created. This economic model of demand-supply, applied to the item in the example cited above - Roofing Nails - is presented in the graph on page 35, taking into consideration
the manufacturing capacity in the country, the estimated demand for consumption, the effect of controlled price during 1979 and the projected effect, in near future, as a result of recent revision. (As per the writer's knowledge and experience the present price allowed is on the higher side, very attractive to producers which will lead to larger supplies).

The suggestion would be to allow the competitive market condition to take care of the equilibrium situation for commodities for which there is excess production capacity in the country. Or else, because of the enormous delay in decision making in the bureaucracy, periods of artificial scarcity are created, black marketing situation occurs, resulting in loss of sales tax revenue to the Government and fleecing of the consumer; and hoarding takes place for speculative purposes. Once again taking the same example of Roofing Nails - till March 7, 1980, there was not a single roofing nail available in the open market for nearly 8 - 10 months till March 1980, but within a few days after the current price revision, abundant supplies of this commodity were available. This availability is, in spite of the exports across the border to meet the unprecedented and anticipated demand where there is urgent need for reconstruction and, to where the export trade started only recently.
This commodity could not have been manufactured overnight in hundreds of tons.

3. **Role of General Superintendence (SGS)**

The S.G.S. (Kenya) Limited, receives the intimation from the importer's bankers, the details of import licence and all other relevant information pertaining to the intended export from Kenya. Upon receipt of this intimation, the SGS office advises the prospective exporter to send them a copy of the final invoice and instructs him to arrange for the inspection of quality and quantity of the merchandise, and also, intimates that they (SGS) hold mandate to carry out price-comparison of the goods to be invoiced. Also, SGS instructs through their standard written format that the exporter should collect the 'Certificate of Clean Report of Findings' after despatching the goods, on producing a copy of the goods receipt certificate (or the air waybill or bill of lading, as the case may be) wherein, the transporter gives an irrevocable undertaking to deliver the goods at the destination. The SGS inspector (there are just two inspectors in Nairobi office who carries out physical inspection of all goods that are exported from Nairobi and surrounding areas) checks the merchandise and verbally accords his approval for despatch. *After despatching* the
goods, at times, when the request is made for issuance of the clean report of findings, the SGS points out that the price invoiced is higher and advises the exporter to revise the invoice as per its price estimation. If the exporter is unable to carry out the revision as per SGS's advice, then SGS suggests that it will issue what is called 'Non-negotiable Report of Findings'. This means that the exporter cannot get the payment for his exports from his banker, in Kenya and that, he has to submit all documents to the Importer's Banker for his (banker's) decision to pay or otherwise. It is obvious that this situation can lead to enormous unforeseen delays which can cause an adverse effect on the exporter's cash flow situation. There are instances wherein, to avoid such delays, the sellers have compromised to reduce prices and have revised their invoices.

While the purpose behind this surveillance is appreciable which, if followed everywhere, can bring in advantage to the Kenyan importers also, the procedure followed by SGS (Kenya) Limited, is questionable. SGS are supposed to take into consideration, various relevant factors, such as, international price level of the commodities being exported, existing local market situation, actual cost incurred by the exporter and profit margin
charged, and the price ceiling fixed by the price controller. After weighing all these factors, if SGS are of the opinion that the price invoiced is unreasonably high, then they can suggest price revision and, if the suggested revision is not acceptable to the exporter SGS will issue a Non-negotiable Certificate. While agreeing to all the explanation and reasons, when it was asked as to why the price discrepancy should not be intimated to the exporter at the time of advising to arrange for inspection itself and intimate their decision on this aspect before the goods are despatched, no satisfactory answer was forthcoming.

It is, therefore, suggested that, the concerned authorities such as, KETA, KCCI, and the KMA approach and convince SGS of the genuine difficulties that would be faced by the exporters and have the procedures amended without, in any way, compromising their mandate and authority.

4. Insurance, Clearing and Forwarding

Most of the Clearing and Forwarding houses also undertake Marine (Cargo) Insurance business or, at least, have some sort of working arrangement with each other, therefore, these agencies operate in a typical oligopolistic pattern.

8 Statement by Mr Bruce Kennedy, Manager, SGS (Kenya) Limited, in a personal interview during November, 1979.
While clearing and forwarding operations in Kenya, by reputed agencies, could be termed satisfactory, except that, at times, a vigorous follow up by the traders becomes necessary, the insurance companies involvement and co-operation to the traders leaves much to be desired. At the time of getting the clients to insure the cargo through their companies and till the indemnity bond is signed against receipt of premium payment, the approach is quite persuasive and businesslike. But, if any claim arises due to loss, damage, pilferage, short-landed cargo, etc., of the goods and the client makes a claim for compensation of the loss suffered, the response and reaction from these agencies is quite discouraging and often frustrating.

When a claim is lodged for compensation, the insurer points out several shortcomings on the part of the insured and non-fulfillment of a number of conditions and procedures which are printed in minute letters as foot notes in the document of insurance agreement. Very often, the client is made to run from piller to post, i.e., from insurer to clearing agent and then to shipping agents and so on, and finally, when the client is almost at the point of losing his claim due to time bar, the insurer offers to settle a part of the claim, say 50 to 60 percent, subject to condition that the
insured trader subrogates his full rights in favour of the insurance Company. 9

In this aspect KETA can play an important role in educating the traders as to what timely actions are to be taken to protect their interest as regards settlement of claims. In case of difficulties caused by the procedural red tapes of insurance companies for settling the claims, the KCCI, the KMA or the KNTEC should investigate these difficulties in the interest of the traders. The Kenya National Trading Corporation (KNTC) is a large parastatal organisation which is involved with substantial foreign trade promotion, clearing, forwarding and warehousing on a large scale and represents thirteen major foreign shipping lines. It is claimed that all its activities are backed by Kenyan Government and that, it is the Government’s main trading company. 10 The K.N.T.C. would be doing a great service to small traders, particularly importers who are unable to understand and foresee the legal procedures and formalities that may arise.


5. **Export Marketing**

(a) **Kenya External Trade Authority (KETA)**

The KETA is an export promotion organisation (although 'external trade' implies importation also, KETA is not involved with imports) under the Ministry of Commerce, but enjoying near autonomous status. This authority advises the Government on all aspects related to exports and assists the Government in implementation of the procedures, rules and regulations.

The KETA has three main divisions - (i) Training wing; (ii) Technical Cell, and (iii) Export Marketing and Promotion wing. All these divisions are manned by experts from various foreign countries sponsored under the respective countries' aid programmes, E.E.C., and other agencies assisting Kenya's export promotion effort. KETA publishes a monthly periodical 'KETA Export News' which contains useful information regarding export business. It circulates among its members 'Newsletters' which highlights export opportunities available in various countries and provides all relevant data - economics, trading, resources, balance of payment situation etc., pertaining to those countries.
(i) **Training Wing** - this division renders valuable assistance to Kenyan exporters by educating them on various formalities on exportation, such as, the procedures involved, documentation, packaging, insurance and other formalities to be followed in order to satisfactorily complete the cycle of exportation. This division organises seminars at various places and conducts training programmes to educate the personnel involved in export activities.

(ii) **Technical Cell** - this division has advisers who are experts in different industries, such as, mechanical, chemical and electrical industries. Manufacturers can seek their valuable advice for developing various products which have export potential. The experts visit the industrial establishment and study the existing activities and suggest what products can be manufactured for export within the existing manufacturing facility and also what additional production facility could be installed to develop related diversified products.

(iii) **Export Marketing and Promotion Wing** - this division is doing a commendable service to the country. It organises promotion drives for Kenyan manufactured goods in potential markets, participates
in exhibitions and trade fares abroad. Such activities have resulted in procuring substantial export orders to the country for traditional products. It conducts market research and advises the various possibilities of boosting exports, through KETA's Newsletter. It also renders valuable assistance to those who need to know the marketing aspects of export business.

(b) The Kenya National Chamber of Commerce and Industry (KNCCI)

The KNCCI is an independent, voluntary organization, recognised by the Government, devoted to promoting the interest of commerce and industry in the country.

A member can obtain assistance on all matters affecting his interest. Trade enquiries received from all parts of the world are directed to those who are known to be interested, or published in the monthly circular. The chamber through its extensive overseas contacts offers advice and information to the businessmen on the establishment of markets overseas.

In Kenya, the KNCCI is the only approved and recognised authority for issuing the certificate of origin and similar other commercial documents.
The Chamber organises the annual trade exhibition in Nairobi which acts as a show window of Kenya manufactures and other products.

(c) **The Kenya Association of Management (KAM)**

This Association is a representative organization of industrialists in Kenya formed with the aims and objectives of encouraging investments and development of industrial production in Kenya. It believes in private enterprise for industrial growth and expansion and, endeavours to implement their belief for the development of this sector of national economy.

It advises existing and potential industrialists on market possibilities, local as well as exports, besides other aspects such as taxation, labour, tariff, etc. It voices its opinion and concern to the Government on matters affecting the private sector and offers suggestions for remedial measures.

The KAM often sends its members to foreign countries to promote goodwill and to disseminate information to encourage bilateral trade.

6. **Export Financing**

Exportation of primary products in Kenya is organised and regulated through parastatal bodies
and other organisations. But, for exportation of secondary products, there is no backing and encouragement from any organised institution except, some short term measures available only to established business houses which are mentioned below.

(a) **Purchase of Foreign Bills**

The commercial banks finance the established exporters against the documents which entitle the holder of such documents, the title to the sum of money, or goods receivable, in a foreign country. This is one of the ways the exporter can obtain assistance after shipment of goods against an established Letter of Credit. This type of financing is called Purchase of Foreign Bills, in which case, the title deed is passed on to the financier - the lending commercial bank.

(b) **Advance against packing credit**

The commercial banks provide credit facility, for purchase of goods for export and for purchase of inputs for manufacture of goods for exports, to the intending exporter if he is in possession of an irrevocable Letter of Credit and firm order for exportation. This mode of financing is termed as 'Packing Credit' and is advanced against the security of goods purchased for exports. This is
a very important facility available to the exporters but the banks extend this assistance only to the established industrial and business establishments of high credit rating.

(c) **Discounting Bill of Exchange**

A Bill of Exchange is a negotiable instrument drawn by the supplier of goods and services, on the buyer who signifies the acceptance to pay the value specified, by signing the document. This document is in essence a promissory note and the commercial banks discount such bills to the exporters who have prior arrangements with the bankers. Such advances are usually set off against the overdraft facility the party may be having with the banker. The banker charges the agreed interest rate and discounting fees to the borrower and undertakes to collect the proceeds of the bill when due. However, if the drawee of the bill defaults, the borrower has to defray the banker promptly on receipt of the debit advice.

(d) **Advances Against Import Bills**

This is a credit facility available for importation purposes. When the documents are received from a foreign correspondent bank under an Import Letter of Credit, the local banker instead of requiring the importer to pay the value
immediately creates an advance for the value of the documents. Such facilities are provided with prior arrangements and the importer signs a 'trust receipt' agreeing to pay the bank when the goods reach the country.

(e) **Advance against Imported Merchandise:**

This facility is available for exceptionally good parties enjoying longstanding creditworthiness. When it is anticipated that it will take a long time to sell or consume the imported goods, the banker advances credit to the importer against the security of such goods. Such goods may either be in the custody of the banker or it may be stored in the importer's warehouse which will be locked and sealed by the banker. The goods are withdrawn with the prior arrangement with the banker.
CHAPTER IV

PROSPECTS

Of the 118 nations that comprise of the Third World, 42 countries have been classified as 'least developed' - the poorest of the poor. Among these 42 nations, India is the largest with a population of about 650 million, consisting of 23 states, each state on an average, is as vast as Kenya and, the smallest country is Gabon with about 500,000 people, a country which is less than one half the city of Nairobi. Vastness presents complex problems of diverse culture, administration and cohesion but, offers the benefits of relatively large markets, a wide range of resources, and potential for self-sufficiency and economic diversity. On the other hand, most small countries present quite different problems, such as, limited markets, shortage of skills, scarce physical resources, weak bargaining power and less prospect for economic self-reliance.

India with all the advantages of its vastness in the above mentioned context has found it impossible develop a self-reliant economy and has had to depend upon

These poorest of the poor Third World countries, which are sometimes even referred to as the Fourth World are listed, along with some economic indicators, in Appendix III.
foreign trade for its economic survival. It enjoys excellent foreign market for its secondary and tertiary products and ranks tenth among the industrially advanced countries in the world today. Rapid industrialization and maximization of exportation of its manufactures has been the significant factor in its economic development. Therefore, it is imperative that Kenya being a smaller country with its 15 million people and an area of 570,000 square kilometres, has to depend upon external trading and, being relatively a younger independent nation, has to embark upon export maximization for its economic development.

In Kenya, the Government accounts for about one fourth of the total of all goods and services produced in the country. The other three fourths comes from private activities of individuals and organisations. This proportion in the economic activity reflects the Government’s belief in the principle of mixed economy, in which the administration plays a leading role but most of the employment and production that is generated is the result of the private and co-operative effort. The example of the Government’s produce are direct services, such as, education, health, extension services to the farmers and the like.
The most encouraging factor in Kenya for its economic development is the stable political situation which instils confidence in the investors for undertaking industrial and other business activity. This is further manifested in Kenya's stability in its currency which is a key factor for a healthy economic climate.

Although the Government's direct involvement in generating goods and services is limited, its major influence in promoting the economic advancement comes from setting the policies and rules that guide the decision of the private sector. Through its policy decision on domestic taxes, on pricing of basic consumable goods, on tariffs covering imported goods, incentive facilities provided to exporters; the Government strives to achieve the goals and objectives set out. It is in this context, the recommendations in this Chapter are made for boosting exports and regulating imports. In this effort, the writer has drawn mainly from the Indian experience and has attempted to adopt the same to Kenya's prevailing condition.

As already mention earlier, this thesis work is in the context of the manufacturing sector in the country. Table I on page 52 shows the sectoral growth of economy till 1978. It is claimed that in
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<td>Agriculture</td>
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<td>Forestry</td>
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<td>Mining &amp; Quarrying</td>
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<td>Transport &amp; Communication</td>
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the decade of the 70s, the manufacturing sector has achieved an impressive growth rate of 10.5 per cent per annum which is about twice as high as the overall rate of growth of national economy. Be as it may, an analysis of export - import performance till 1978, as graphically presented on page 54 indicates an increasing trend of 'deficit balance of payment' situation. A further important factor to be considered, is the fact that, if Kenya has to boost its exportation of manufactured goods, it has to expand its industrial base and increase the level of the manufacturing activity. For this purpose, the country has to depend upon importation of plant, machinery and other capital goods and also, to import relevant technology, know-how and managerial skill. Therefore, the Import Bill is bound to increase and further widen the gap between exports and imports. Hence, the following recommendations to improve the situation. Firstly, we shall deal with the import regulation followed by suggestions for improvement in export activity.

1. **Import Restrictions**

The Government restricts or prohibits the importation of goods from abroad in order to protect indigenous industry and in keeping with the social objectives of the country. Protection is also provided through varying import tariff. Government is
Source of Statistical Information:

ECONOMIC SURVEY 1979.
Central Bureau of Statistics.
Ministry of Finance & Planning.
expected to revise these tariffs and other aspects of import policy, annually, after review of the impact on local industry. It should be the declared policy and practice of the Government to protect the interest of indigenous industry by imposing import duty on goods which are already being manufactured in the country, in order to discourage imports rather than prohibiting such imports. Since most of the manufacturing activity is in private sector, prohibiting such imports will lead to monopolistic tendency, profiteering and will also force the consumer to buy sub-standard quality products.

Following is an example in the above context:

'Galvanised Iron Wire, SITC No. 677.0.10' is, at present allowed for importation free of sales tax and on concessional import duty of 20 percent, and this item is also being manufactured indigenously by importing the basic input - Mild Steel Rod. This preferential tariff is allowed because the finished product, such as, Barbed Wire and other fencing material, etc., is consumed by the weaker section of the society, namely, the Agriculture and Farming sector. This situation exists for the last 5 to 6 years. Manufacturers of these finished products import G.I. wire, and also buy from local sources. Importation is to procure, in some cases, the right quality of the material for certain demanding
application and also, in keeping with the business strategy to have more than one source of supply. The manufacturers of G.I. Wire also manufacture the finished goods using their own input.

Now the Government authorities are persuading the users of G.I. Wire to procure this input locally without resorting to importation. It is reported that the local G.I. Wire manufacturers have sought protection through Industrial Protection Committee, Ministry of Commerce and Industry and efforts are under way to ban the importation of this item. Prohibiting importation of this item will have the following effect:

- Right quality of the material will not be available and sub-standard goods will have to be used by the consumer.
- Since the manufacturers of G.I. wire also manufacture the finished goods, for which, there is now competition, will become monopolistic in the entire product range and the manufacturers of only the finished goods will be out of market.
- A simple technological (Galvanising) process and subsequent products will become monopoly items leading to profiteering.

Directive issued by Dr. Kgundo, Adviser in the Department of Economic Planning, Ministry of Commerce and Industry, in a meeting with the local manufacturers and users of G.I. wire (in which the writer was also a participant) on Dec. 14, 1979.
The suggestion would be to levy, immediately, higher rate of import duty on G.I. Wire. This will introduce an element of competition (apart from bringing in some additional revenue to the Government) leading to improved efficiency and productivity and ultimately the consumer will enjoy the benefit as a consequence of such measure.

More similar examples are not being cited for the sake of brevity. It suffices to suggest that, ample scope exists in this sphere, to periodically review the effect of various tariffs and incorporate remedial measures promptly. This will reduce competition, bring in revenue to the Government and encourage a free market economy situation for the benefit of all concerned in this sector.

2. **Import Substitution**

It is being claimed at various platforms that, Kenya has achieved a satisfactory level in so far as import substitution is concerned. Therefore, it is being advocated that the emphasis in manufacturing sector should shift from import substitution to export promotion.

There are no two opinions as to the top priority required for export promotion and it should also be noted that substantial progress has been
made in establishing industries aimed at import substitution, nonetheless, there is much more to be achieved in the area of import substitution. The basic fact to be realised is that, the proportion of foreign exchange saved by developing substitution for imports for a certain value, is much more than the proportionate foreign exchange earned by exporting an equivalent value, in terms of nett returns, for a developing country like Kenya.

The Import Bill runs into a few million Kenyan pounds for importation of moulds and simple spare parts for maintenance in glass, rubber and plastic manufacturing industries; replacement and maintenance spare parts in textile, sugar, cement, paper, motor vehicles, and agricultural products processing industries. Project reports for establishing an Engineering Workshop, to provide support facilities for the above industries are still under preparation at the Industrial Survey and Promotion Centre under the Ministry of Commerce and Industry.

Even the proposals for indigenous raw material based industries, such as, sheet glass\textsuperscript{13} and other

\textsuperscript{13} Kenya depends, 100 per cent, on imports for its requirement of sheet glass which is estimated to be 6000 tons per annum and, there is no sheet glass manufacturing facilities in the whole of East Africa. The demand for this product is steadily increasing in view of the spurt in building construction activity in the region.
ceramic products have not yet seen the light of the day. There is a shortage of even container glass (bottles, etc., a technology comparatively simpler to that of manufacturing sheet glass) and the proposals and discussions at various organisations for establishing an additional plant for this product are being heard for the last couple of years.

In view of the above, it is far too early to be complacent that the country has achieved self sufficiency in import substitution. A real breakthrough is required at policy making and implementa
tion level to gear up the industrial promotion activity.

3. **Incentives for Exportation**

   At present, the following two alternative systems of incentives are applicable.

   (i) **Export Compensation**

   This provides for the payment to the exporter of 10 percent of the f.o.b. value or 10 percent of the foreign currency proceeds of locally manufactured goods which must be wholly produced in Kenya for export or, if manufactured from imported raw material, the value of the latter should not exceed 70 percent of the value of finished product.
(ii) **Customs Duty Refund and Duty Remission**

Customs duty refund is in respect of items that go into the final product. These claims may be one or more of the following:

(a) Dutiable imported raw materials which are used in the manufacture of articles to re-export from Kenya;

(b) The duty on imported raw materials makes the cost of production of local produced goods higher than competing imported goods and renders exports uncompetitive in the foreign markets.

Customs duty remission involves the duty free import of raw materials which go into manufacture of final product to export.

Another important aspect in export transaction is that the goods thus sold are exempted from local sales tax. Even if sales tax has been paid by the exporter of the goods, at the time of importation or at any other point prior to exportation, the sales tax amount paid is refundable.

Although the above mentioned incentives seem to be satisfactory, the essence of the above policy is only to reduce the burden of import duty element if the goods exported contain imported raw materials.
It is recommended that export compensation, in respect of 100 percent indigenous product be increased substantially on a varying scale depending upon the type of industry - cottage, handicrafts, and similar manpower intensive and indigenous raw materials based industries - producing the goods for export. This will encourage exportation of local goods apart from encouraging local crafts at village level at non-urban areas.

In India, such a system of export compensation at varying percentage of the value of the goods exported exists. Also 100 percent duty draw back is allowed if the raw material has been originally imported for manufactured goods for export. The export compensation in certain categories of indigenous manufactured goods is as high as 40 percent of the f.o.b. value. As a further incentive to the exporters, importation of restricted items is allowed, to a certain proportion of the foreign exchange earned, if the goods thus imported are directly consumed by the exporter.

4. Marketing for Export Promotion

The available facilities at present and the various promotional programmes being undertaken by the agencies assigned with this responsibility have been discussed in Chapter III. A few suggestions as to what else can be done to give impetus to this
activity are mentioned below:

(i) Until 1979, there was no industrial licensing policy in the country, as a result, any person who found a particular manufacturing activity profitable yielding quick return in investment lost no time in duplicating that kind of activity. This resulted in multiplication of manufacturing facility in the country involving low technology (typical of any developing country at take-off stage) level, comparatively high cost of inputs, very little value added on processing but, yielding high profit margins. Examples are simple hardware items — various types of nails, tacks, screws; building materials — reinforcing steel fabrics, steel reinforcing structures, corrugated iron sheets; metal processing — galvanising, plastic, rubber, etc.

As a result, the capacity installed in the country is far in excess of what can be consumed, rendering under-utilisation of the installed capacity. Therefore, it would be worthwhile to conduct an industrial survey and compile the surplus available capacity so that, such items are added in the list of goods for export promotion. Excellent market potential exists in the neighbouring countries for these items. Therefore, what is urgently required is an effective organisation to deal with this aspect and export marketing management.
(ii) The information available at present from the export promotion agencies is mostly regarding traditional items and the efforts for promoting export of manufactured goods needs to be intensified. A competent technical cell should be set up who should be capable of investigating and analysing the import lists in developing countries, with particular emphasis on African countries, and then render advise and assistance to Kenyan manufacturers as to what items could be manufactured for exportation with the existing facility in the country. Such an exercise will also lead to appreciate as to what further diversification is feasible for Kenyan industrialists.

At the outset, this suggestion may look a little overambitious but, this is exactly how the export trade boomed in India in manufactured goods. It is obvious that Kenya is not yet at the stage of offering any capital equipments, etc., but it does have capability and potential for production of simple hardware items, fabricated parts and similar other items to the neighbouring countries where, the level of industrial activity is far behind that of Kenya.

(iii) Improvement in distribution system. To strengthen the industrial base, to provide employment opportunities in rural areas, in order to check influx of rural urban migration, it is essential to promote
man-power intensive, indigenous raw material based, small industries in the interior parts of the country. There are various organisations promoting this small scale oriented rural industrialisation which include the Kenya Industrial Estates Limited (growth of small scale and rural industries in Kenya has been tardy. The study of the causes for this tardiness and scope in this sector would itself be a major subject for an intensive research work). An organisational system for collecting the produce from these small units and then finding local marketing outlets and also promoting export of such produce on a centralized co-operative basis would result in multiple benefits.

5. Financing Export Trade

The successful promotion of exports of manufactured goods, depends not only on the quality, price, delivery period and after-sale-service, but also on the capacity of the exporter to offer deferred terms of payment. This problem has become more acute during recent years owing to the 'credit race' among the industrialised countries.

A United Nations Seminar on 'Export Credit Insurance and Export Credit Financing' held in Belgrade in September 1970 identified the following
factors as mainly responsible for the increasing trend of ever lengthening deferred payment terms:

- 'The gradual emergence of a buyer's market for almost all types of goods traded internationally, as a result of growing protection in developed countries and the increasing industrialisation of a number of developing countries.

- Keen competition among exporting countries to expand their existing markets and open up new ones in order to increase their share of international trade and maximise their foreign exchange earnings.

- The difficulties experienced by developing countries in financing imports of capital goods for the implementation of their development plans, and sometimes imports of raw materials and consumer goods; the conditions created by the prevailing buyers' market have been prompting more and more prospective buyers to seek actively to import goods on the basis of export credits, which they tend to regard as a means of increasing their productive capacity without augmenting their working capital; such facilities help to elude domestic restraints, to escape high interest rate on domestic loans, and to try to turn domestic inflation to advantage. In addition, competing exporters have been making
growing use of export credit as a sales promotion technique. Consequently, the pressure of suppliers to provide not only the export goods but also the capital necessary for their acquisition has become very intense. As a result, exporters faced with the need to grant more export credit in order to secure new orders have found that they can grant such credits only if they can obtain export credit financing. Consultations with national authorities concerned with exporting in developing countries have shown that many of them regard the lack of adequate export credit financing and the high cost of such financing as two of the main difficulties facing their suppliers of non-traditional goods."

Export financing is an integral part of a country's promotion efforts, which, in turn, are closely related to general economic development problems. It is necessary to consider Export Financing in a broad perspective and to adopt a co-ordinated approach. In the context of Kenya's developing economy two possible systems of financing schemes for promoting exports are suggested -

(A) Export Credit Insurance Scheme
(B) Factoring.
Export Credit Guarantee/Insurance Scheme is in existence in many developing countries, whereas, Factoring Schemes are predominant in developed industrialised countries and have not yet found their way in the Third World.

A. **EXPORT CREDIT INSURANCE**

The scheme of providing credit protection to the exporter is similar to that of marine cargo insurance but the risk insured in this scheme is against probable non-payment by the debtor. Selling abroad on credit terms is riskier than selling on similar terms in domestic market; in case of export credit political risk is also involved besides commercial risks.

An export insurance policy that covers both commercial and non-commercial risks guarantees the supplier against possible substantial losses or against prolonged illiquidity caused by protracted failure on the part of the buyer to pay for goods. Furthermore, the insurance policy can be of great assistance in facilitating the mobilisation of export financing when the supplier is not in a position to finance such transaction himself. The commercial bankers willingness to render advances is considerably increased by the assurance that the supplier is protected against non-payment by the foreign buyer.
The risks covered by an export credit insurance schemes are only against non-payment due to commercial and/or political reasons and cannot cover all risks involved in exportation for which, other insurance schemes are available.

The most important financing function performed by this insurance scheme is to assist the exporter to raise funds by providing him with additional security. This is particularly important in Kenya where, it is difficult for exporters to obtain finance from the commercial banks because of the latters generally rigid security requirements. The simple way for an exporter to provide his bank with convincing security it so take out a credit insurance policy and assign the proceeds of it to the bank. If the buyer pays on the due date, the exporter can repay the bank and, in case of default, by the foreign debtor the insurance will pay the claims direct to the bank and then proceeds to recover from the foreign buyer.

The principal problem that will be faced by Kenya in the initial stage is the solvency of the scheme, that is, the volume of exports may not generate adequate premium revenue to cover the losses resulting from the payment of claims (premium
rates vary from 0.5 to 4 percent depending the extent of risk involved). Therefore, no private organisation comes forward to establish this scheme.

In Kenya, Government has to initiate this scheme sooner or later, and seek the co-operation of industrial agencies, through the membership of the Berne Union,\textsuperscript{13} or may seek the co-operation of other developing countries including India, to benefit from their experience. Prompt action to establish the Credit Guarantee scheme will definitely boom the nascent export trade in secondary product.

A current example is export trade in Uganda. When Ugandan importers, recently, opened letters of credit on deferred payment terms, the Kenyan commercial banks refused to add their confirmation to such transactions and the KCCI and KFA advised the local exporters not to undertake any risk in view of the past outstanding debts from Uganda. It is only after the importers have arranged documentary credit on \textit{payment at sight} terms,

\textsuperscript{13} The Union d'Assureurs des Crédits Internationaux, 31, rue de Bassano, Paris, 8\textsuperscript{e} France: commonly known as Berne Union which is actively connected with the problems relating to export credit insurance.
export trading with Uganda commenced during the last two months.

Whereas, in India, because of the existence of export credit insurance facility, Indian exporters have accepted 360 days' payment terms, as a result, export orders worth I.Rs. 1 billion are being executed since December, 1979.

The principal features of export credit insurance scheme in some developing countries are mentioned in the Table 2 on page 71. The list is not exhaustive, only a few selected countries are mentioned.

B. FACTORING

Factoring is a system which offers unique facilities to the seller which has many advantages to the trader in domestic selling as well as in exportation. This is a widely used export financing technique that developing countries could adopt to their specific requirements. The most important and unique feature of this type of financing is the purchase by the factoring firm of the receivables of its clients without recourse, in the event of the debtor's financial inability to settle his account. This differs from accounts receivable financing which involves the legal assignment of
<table>
<thead>
<tr>
<th>Country</th>
<th>Corporation</th>
<th>Premium</th>
<th>Rate</th>
<th>Cover</th>
<th>Policy Type</th>
<th>Policy Coverage</th>
<th>Credit Risks</th>
<th>Term %</th>
<th>Amount Per Year</th>
<th>Guarantee Below 2 Years %</th>
<th>Guarantee Above 2 Years %</th>
<th>Guarantee Below 2 Months %</th>
<th>Guarantee Over 2 Months %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Republic of Korea</td>
<td>Corporation</td>
<td>Premium</td>
<td>Rate</td>
<td>Cover</td>
<td>Policy Type</td>
<td>Policy Coverage</td>
<td>Credit Risks</td>
<td>Term %</td>
<td>Amount Per Year</td>
<td>Guarantee Below 2 Years %</td>
<td>Guarantee Above 2 Years %</td>
<td>Guarantee Below 2 Months %</td>
<td>Guarantee Over 2 Months %</td>
</tr>
<tr>
<td>India</td>
<td>Corporation</td>
<td>Premium</td>
<td>Rate</td>
<td>Cover</td>
<td>Policy Type</td>
<td>Policy Coverage</td>
<td>Credit Risks</td>
<td>Term %</td>
<td>Amount Per Year</td>
<td>Guarantee Below 2 Years %</td>
<td>Guarantee Above 2 Years %</td>
<td>Guarantee Below 2 Months %</td>
<td>Guarantee Over 2 Months %</td>
</tr>
</tbody>
</table>

**Table 2:**
Principal Features of Export Credit Insurance Systems in Some Developing Countries
<table>
<thead>
<tr>
<th>Corporation</th>
<th>Inception 6 months</th>
<th>% Over 3%</th>
<th>0-2% between 6 months</th>
<th>1.72% average rate</th>
<th>% up to 90%</th>
<th>Portfolio</th>
<th>Policies written</th>
<th>Policies written per issue</th>
<th>Policies written per company</th>
<th>Policies written per country</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Commercial</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 2 continued...
receivables by the client to the financier as collateral for a loan, with full recourse against the client for non-payment of the invoice by the account debtor. Depending upon the type of agreement, the factor offers a variety of services including coverage of credit risk, collection of export proceeds, book-keeping of accounts receivable and advance of funds.

Although factoring is an effective technique for financing exports, which has made very rapid headway in industrialised countries, it is little used in developing countries. This chapter briefly introduces the factoring technique as it is currently practiced and suggests how it could be used by Kenya to increase its exports.

Literally, the factor agency takes over all activities of export functions on each transaction, once the seller has despatched the merchandise and handed over the export documents to the factor. Factoring activity is undertaken by highly skilled, experienced businessmen who enjoy great prestige and influence in the trading circles the world over. Therefore, the customer will make special efforts to pay invoices owing to a factor in order to maintain a good credit rating. The client (the exporter who is factored) is thus relieved not only
of collection costs but also of collection problems, and can devote his time to other productive aspects.

Apart from several advantages of factoring, the greatest assistance to an exporter is the facility of **advance of funds**. Under the standard factoring arrangement the factor is prepared to cash the account receivable as soon as the good are shipped to the customer. The key-note of this form of factoring is cash upon shipment. While many of the factor's clients may not need this service, others owe their growth to the additional working capital thus provided. **Discounting sales through the factor is not borrowing.** Since the factor guarantees the account in the first place there is no recourse against the seller in the event of non-payment by the client's customers, the factor's advances are self-liquidating, the factor will look to the customer, not to the client, for payment. The advance arrangement supplements the factor's credit guarantee facility by enabling the client to draw against the receivables purchased by the factor prior to their maturity. This advance payment will obviously resolve most of the client's financing problems.
Depending upon the agreement entered into between the factor and the client the following factoring procedures are adopted:

(a) each sale is submitted to the factor for credit approval;
(b) merchandise is shipped and the invoice forwarded to the customer on regular invoice with a notation that the customer is to make payment direct to the factoring firm to which the account has been sold and assigned;
(c) copies of bills of lading and shipping receipts are forwarded promptly to the factor.

The diagram on page 75 illustrates the method of operation in factoring.

Analogous to insurance premiums paid by the insured to cover various risks, there are various types of factoring costs which are charged in accordance with the extent of factoring facilities contracted.
Diagram illustrating the method of factoring operation.

Seller ships merchandise on regular terms.

Factor makes cash available upon shipment.

Sells transfers credit risk to factor.

Buyer acquires from factor.
Factoring in Developing Countries

Notwithstanding its obvious advantages, factoring is hardly known in developing countries. This is unfortunate, since many of the advantages mentioned above are of particular relevance to the special problems faced by exporters in developing countries, such as the small size of firms and the lack of adequate capital and know-how in export marketing. The combination of finance and coverage of credit risk and related assistance will be of very great help to small or inexperienced exporters who have to depend, at present, upon a variety of institutions for assistance in these matters. The limited talent available in export management could then be utilised for the main business of export promotion, namely, marketing, instead of being dissipated in activities relating to the collection of export proceeds.

How a Factoring Institution can be established in Kenya?

Factoring needs relatively more expertise and skill compared to that of insurance business. In Kenya establishing a completely independent factoring company, at the present stage, would
not be a feasible proposition. The Government authority may resort to either of the following:

- Inviting foreign companies to establish subsidiaries;
- Setting up factoring companies in collaboration with an association of factors such as, Factors Chain International, Amsterdam; Heller Group, Chicago; International Factors Group, Boston.

The organisational details will have to necessarily vary from country to country and the factoring techniques imported from highly developed countries will have to be adapted to suit the conditions in Kenya. The International Trade Centre UNCTAD/GATT will certainly consider favourably if any request is made by the Government of Kenya for guidance and assistance. Alternatively the KETA may also be in a position to advise on factoring services in Kenya; if the Government moots the idea for such a scheme.

**QUALITY ASSURANCE**

Pre-shipment inspection, where applicable, as carried out by SGS representatives is just a surperfluous check as to the actual quality aspect of the merchandise. This inadequency of
actual quality control activity by the authority could be due to poorly staffed technical personnel for the function. SGS has more to do with the assistance it provides to the banking system rather than being in a position to carry out a technical analysis of its quality findings and provide feedback information and advice to the local traders and manufacturers.

In a developing country, the level of awareness as to the consequences and implications of exporting a sub-standard quality product, is generally low. The exporter, be he a merchant or a manufacturer is usually interested in executing the export order as quickly as possible and complete the cycle of transaction by receiving the invoiced payment. In domestic trade, if the merchandise sold is found to be defective at a later stage, some remedy to compensate the damage could be found, the transaction could even be reversed and, in an extreme situation, only the reputation and standing of the local seller is at stake. But in a foreign market, the image, prestige and reputation of the exporting country is involved; and export trade flourishes based on these factors.
In view of the above, it is suggested that an inspection and quality control authority be established in the country manned by technically competent personnel to ensure that the quality standards as specified by the Kenya Bureau of Standards (or British Standards, as the case may be) are maintained in respect of the selected goods exported. In India such an authority exists - the Export Inspection Council - which is operating since 1964.
THE KENYA INDUSTRIAL ESTATES LIMITED (KIEL)

The KIEL has been established to promote small scale industries based on African Entrepreneurship in the country. The KIEL has been described as a model of Industrial Promotion based on international co-operation in Africa. By the end of 1979, KIEL was managing a loan port-folio of 342 projects involving a total amount of K.Shs. 151 million. The emphasis is to provide ample employment opportunities, make full use of locally available raw materials and locate projects in rural areas. The organisation aims to achieve its objectives in the following ways:

- Planning, Preparation and appraisal of projects;
- Provision of Industrial premises at reasonable rents;
- Provision of Loan finance and also direct equity participation;
- Assistance during implementation of projects;
- Provision of repair and tool manufacturing facilities at the KIEL's technical service centre;
- Provision of consulting services on management, technical problems, marketing and accounting.
Quite a few industrial units promoted by the KIE are reported to be working under loss and are at a standstill due to following reasons:

(a) Lack of managerial skills for running the industrial units;

(b) Lack of demand for products produced in such units;

(c) There is no liability on the part of the entrepreneur since the finance is provided in the form of loan, the security for the loan being the industrial unit itself.

The above ills could be remedied by:

(i) Providing management training, including finance and accounting, to the Entrepreneurs to run such small units;

(ii) Providing central marketing services. Once KIE has conducted the feasibility study and approved and implemented the projects, it should plan to procure the goods centrally or, on regional basis and provide marketing outlets through proper distribution channels;

(iii) KIE should participate in the equity capital of the projects rather than providing unsecured loan assistance.
The KIE should divert its attention on export promotion also. At present, wherever KIE projects have been licensed to manufacture certain products, such products are not allowed to be manufactured by other entrepreneurs. In certain cases this policy has done harm to the country's industrialization and import substitution effort. Wherever KIE projects are unable to establish certain import substitution products due to lack of technical expertise, the required know-how should be sought from outside. Alternatively, permission should be granted to non-KIE projects, to a limited capacity, to manufacture such products. This will bring in dual advantage and KIE projects can benefit from such an enterprise.

A case in the point is 'Gas Cylinders' for domestic consumption of liquified petroleum gas, being produced by a KIE unit. The product has not come up to the specified quality standards and, also, the unit producing this item is not in a position to meet the existing demand. The Government does not grant permission to manufacture this product by a non-KIE project but has allowed importation. This is a paradoxical situation which needs immediate close look by the concerned authorities.
By allowing manufacture of such items by non-KIE projects, on a restricted scale of operations, in the country, the following benefits will accrue:

(i) The KIE projects will obtain necessary expertise to perfect the manufacturing, processing to produce the final product of required quality;

(ii) Save foreign exchange by eliminating importation;

(iii) Earn foreign exchange by exporting such goods to neighbouring African countries.

There are quite a few products, by production of which, Kenya can stop imports and also export these goods to foreign markets. Therefore, the emphasis in external trading in Kenya should be 'Import substitution and Export promotion'.
CONCLUSION

The objective of optimising external trading, as we have seen in the earlier chapters, is a matter of mobilizing and reorganising the available resources, perspective planning and effective management of this important sector of economy. In the words of Peter Drucker the Third World is underdeveloped because it is undermanaged. In this context, proper regulations and effective controls on imports and import substitution are as important as promotion of export trade. Grape fruit which is imported, and being sold at K.Shs.60/- per kg. is certainly not an essential item for which import licence and foreign exchange allocation is being granted. Apart from eliminating importation of such luxuries forthwith, the Government should also attack the ills of under-invoicing and over-invoicing in external trading by developing an intelligence wing.

The development of an under-developed country has to be viewed and reckoned from what the economists have termed as 'International - Structuralist' concept rather than 'Linear concept'. The latter concept considers the historical growth rate of GNP as the economic indicator of national development. This is
rather an erroneous and misleading concept in the present situation prevailing in the Third World. The latest concept and true indicator of development is the structuralist model which analyses the prevalence of Dualism - Domestic as well as International. The domestic dualism highlights the co-existence of the two different classes living in the same country - a few rich and a vast majority living in utter poverty. Therefore, the degree of equality in the distribution of national income, education, interdependence etc., are the factors considered to measure development.

To quote Mahbub ul Haq of Pakistan, who succintly asserted that, 'we were taught to take care of our GNP as this will take care of poverty. Let us reverse this and take care of poverty as this will take care of the GNP'. A look at the Table III on page 86 indicates that Kenya is among the countries which fall under highest inequality distribution. Kenya's 40 percent population at the lowest level share among themselves, 10 percent of the material income; the next level of 40 percent population get 20 percent of the total wealth; whereas the remaining top level 20 percent, the elite

**TABLE 3**

Cross Classification of Selected Countries by per Capita Income Level and Inequality: Constant 1971 US dollar

<table>
<thead>
<tr>
<th></th>
<th>Per Capita GNP $</th>
<th>Lowest 40% (percentage)</th>
<th>Middle 40%</th>
<th>Top 20%</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kenya (1969)</td>
<td>136</td>
<td>10</td>
<td>22</td>
<td>68</td>
</tr>
<tr>
<td>Ivory Coast (1970)</td>
<td>247</td>
<td>11</td>
<td>32</td>
<td>57</td>
</tr>
<tr>
<td>(b)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>India (1969)</td>
<td>99</td>
<td>16</td>
<td>32</td>
<td>52</td>
</tr>
<tr>
<td>Iran (1968)</td>
<td>332</td>
<td>12.5</td>
<td>33</td>
<td>54.5</td>
</tr>
<tr>
<td>(Uganda 1970)</td>
<td>126</td>
<td>17</td>
<td>36</td>
<td>47</td>
</tr>
<tr>
<td>Japan (1963)</td>
<td>950</td>
<td>21</td>
<td>39</td>
<td>40</td>
</tr>
<tr>
<td>(c)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Canada (1965)</td>
<td>2920</td>
<td>20</td>
<td>39</td>
<td>40</td>
</tr>
<tr>
<td>U.S.A. (1970)</td>
<td>4850</td>
<td>20</td>
<td>41</td>
<td>39</td>
</tr>
</tbody>
</table>

a - Highest inequality
b - Moderate inequality
c - Lowest inequality

**Source:** Hollis Chenery et al., Redistribution with Growth, Oxford University Press for the World Bank and the Institute of Development Studies, University of Sussex, 1974, pp. 8-9.
society consumes 60 percent of the national income. By reckoning $50 per capita income as the line of poverty 40 percent of the total population lives below the line of poverty and, if we reckon this parameter at $75, about 80 percent live below this line. That is, 12 million out of 15.1 million population live under conditions of abject poverty and hunger and are not aware of the meaning of civilized live. As long as this appalling situation persists, no amount of improvement in GNP, exportation and the like, will achieve the real national development.

In order to achieve production in secondary product, trading and other economic activity at the rural level, investment in 'human resource development' should receive priority. Basic education should be available to the entire population and the eligible persons should be trained in basic skill in order to promote small scale industries in rural areas which will eradicate unemployment and under-employment. This will prevent migration of rural population to add to the magnitude of urban employment. One of the important factors attributable to tardy growth of small industries in Kenya, is the fact that, the rural man has not been prepared for such entrepreneurship. This
aspect gains further importance when it is realised that 75 to 80 percent of all target poverty groups are located in rural areas.

As per the recent World Bank Survey, 80 percent of the economy in Kenya is still 'subsistence economy', which means a group of families existing in a rural setting and producing all their necessities for their own need and consumption and hence, no trading activity. Most of the agricultural produce which brings-in majority of foreign exchange to the country is from large scale farming which is owned by large foreign companies and individuals. One of the reasons for stagnation in rural trading activity is the lack of means of transport and communication. If we look at the sectoral growth, over the last decade, of Kenya's economy, - Table I page 52 manufacturing sector has grown at the rate of 10.5 percent, a record achievement indeed. But this development has taken place only in cities due to emergence of large industries controlled by a small group of power elites and multinationals. Whereas, the growth in transport and communication has been a mere 2.3 percent. For an underdeveloped country, where 90 percent of the population lives in villages, providing of rural access roads and other means of communication forms the backbone of rural development. This sector needs the immediate attention.
In all Third World countries the pattern of economic growth is decided by a few persons wielding power - economic, political and other forms of power, who form the power elite group. The investment decision for development, decision regarding the product, means of production and distribution and all related key economic factors are decided by this power elite, as a result, the interest of this group is well protected. The need of the hour for achieving the national development in the sense of the structuristic concept is to bring 'change' in the way of thinking, attitude and approach of this power elite, so as to achieve equitable distribution of income, opportunities and alleviation of misery of the downtrodden, aimed at overall development.

Jawaharlal Nehru, the first prime minister of free India, has so aptly stated that 'what underdeveloped nations need is a "scientific and technological society". A change in thinking and breaking away from the institutional and structural rigidities. Modern technique is not just a matter of getting a tool and using it. Modern technique follows modern thinking. You can't get hold of a modern tool and
have an ancient mind. It won't work'. Therefore the keyword for all this development is 'change' on the part of the elite group. Development of external trade is but a small portion of the means and strategy to work towards this broad overall national objective.

APPENDIX I

BASIS OF INVOICING FOR EXPORTATION

c.i.f.: Cost, Insurance and Freight. In this case the seller pays the insurance premium and also the freight charges and adds these cost elements to the selling price of the goods exported.

c. & f.: Cost and Freight only. As seen clearly Insurance premium is not added to selling price but only prepaid freight is added to the selling price of the goods.

f.o.b.: Free on board, which means the exporter delivers the goods to the point of loading on to the ship or any other mode of transportation at the exporter's place or at any other nearest mutually agreed place. Freight and Insurance is arranged and paid for by the buyer.
<table>
<thead>
<tr>
<th>Tariff Heading</th>
<th>Tariff No.</th>
<th>Tariff Description</th>
<th>Import Duty</th>
<th>Sales Tax</th>
<th>Statistical Code</th>
<th>Unit of Quality</th>
</tr>
</thead>
<tbody>
<tr>
<td>98.14</td>
<td>98.14.000</td>
<td>Scent and similar sprays of a kind used for toilet purposes, and mounts and heads thereof</td>
<td>50%</td>
<td>20%</td>
<td>899.8.60</td>
<td>Number</td>
</tr>
<tr>
<td>97.04</td>
<td>97.04.002</td>
<td>Coin operated Machines, amusement</td>
<td>50%</td>
<td>10%</td>
<td>894.2.42</td>
<td>Number</td>
</tr>
<tr>
<td>94.03</td>
<td>94.03.012</td>
<td>Metal Furniture</td>
<td>50%</td>
<td>10%</td>
<td>821.9.12</td>
<td>Number</td>
</tr>
<tr>
<td>92.07</td>
<td>92.07.000</td>
<td>Musical Instruments</td>
<td>40%</td>
<td>20%</td>
<td>898.2.40</td>
<td>Number</td>
</tr>
<tr>
<td>91.01</td>
<td>91.01.000</td>
<td>Pocket watches, wrist-watches, and other watches including stop watch</td>
<td>40%</td>
<td>20%</td>
<td>885.1.10</td>
<td>Number</td>
</tr>
<tr>
<td>90.10</td>
<td>90.10.011</td>
<td>Photocopying apparatus and Thermo-copying apparatus</td>
<td>10%</td>
<td>10%</td>
<td>751.8.21</td>
<td>Number</td>
</tr>
<tr>
<td>31.05</td>
<td>31.05.010</td>
<td>Fertilizers, containing the fertilizing substances: nitrogen, phosphorus and potassium</td>
<td>Free</td>
<td>10%</td>
<td>562.9.10</td>
<td>Kg</td>
</tr>
<tr>
<td>Tariff Heading</td>
<td>Tariff No.</td>
<td>Tariff Description</td>
<td>Import Duty</td>
<td>Sales Tax</td>
<td>Statistical Code</td>
<td>Unit of Quantity</td>
</tr>
<tr>
<td>----------------</td>
<td>------------</td>
<td>--------------------------------------------------</td>
<td>-------------</td>
<td>-----------</td>
<td>------------------</td>
<td>------------------</td>
</tr>
<tr>
<td>34.01</td>
<td>34.01.002</td>
<td>Soaps</td>
<td>30%</td>
<td>10%</td>
<td>554.1.01</td>
<td>Kg</td>
</tr>
<tr>
<td>56.07</td>
<td>56.07.709</td>
<td>Drill and Twill Fabrics</td>
<td>60%</td>
<td>10%</td>
<td>653.9.99</td>
<td>Sq. mtr</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>or per sq. mtr</td>
<td>10%</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Shs. 5/-</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>60.05</td>
<td>60.05.080</td>
<td>Dresses, skirts, suits, costumes, women's, girls' and infants'</td>
<td>each Shs 7/50</td>
<td>20%</td>
<td>845.2.40</td>
<td>Number</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>or 100%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>70.10</td>
<td>70.10.002</td>
<td>Bottles &amp; Jars (glass)</td>
<td>33 1/3%</td>
<td>20%</td>
<td>665.1.12</td>
<td>Kg</td>
</tr>
<tr>
<td>73.14</td>
<td>73.14.000</td>
<td>Iron &amp; steel wire, whether or not coated but not insulated</td>
<td>20%</td>
<td>free</td>
<td>677.0.10</td>
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</tr>
<tr>
<td>73.31</td>
<td>73.31.001</td>
<td>Nails (including roofing nails)</td>
<td>33 1/3%</td>
<td>10%</td>
<td>694.0.11</td>
<td>kg</td>
</tr>
<tr>
<td>73.32</td>
<td>73.32.001</td>
<td>Bolts, Nuts &amp; washers of blade steel</td>
<td>33 1/3%</td>
<td>10%</td>
<td>694.0.21</td>
<td>kg</td>
</tr>
<tr>
<td>73.10</td>
<td>73.10.011</td>
<td>Wire rod of iron or steel</td>
<td>20%</td>
<td>15%</td>
<td>(673.1.11)</td>
<td>kg</td>
</tr>
<tr>
<td>or 73.10.019</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(673.1.18)</td>
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</table>

Source:
2. The Sales Tax Act, Cap. 476.
## APPENDIX III

**SELECTED SOCIAL AND ECONOMIC INDICATORS OF DEVELOPMENT, BY GROUPS OF COUNTRIES**

<table>
<thead>
<tr>
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<th></th>
<th></th>
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<tr>
<td>1. AFGHANISTAN</td>
<td>19.3</td>
<td>80</td>
<td>0.8</td>
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<td>181</td>
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<td>2. BANGLADESH</td>
<td>73.7</td>
<td>70</td>
<td>-1.6</td>
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<td>874</td>
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<td>3. BHUTAN</td>
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<td>n.a.</td>
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<td>31</td>
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<td>200</td>
<td>3.8</td>
<td>10-15</td>
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<td>334</td>
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<td>1.6</td>
<td>5-10</td>
<td>38</td>
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<td>373</td>
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<td>11. ETHIOPIA</td>
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<td>1.2</td>
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<td>215</td>
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<td>12. GHANA</td>
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<td>1.0</td>
<td>25</td>
<td>619</td>
<td>450</td>
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<tr>
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<td>90</td>
<td>0.3</td>
<td>5-10</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
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<td>-------------------------</td>
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<td>14. GUYANA</td>
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<td>400</td>
<td>1.3</td>
<td>76</td>
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<td>164</td>
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<td>710</td>
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<td>20. KHAMER REP.</td>
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<td>41</td>
<td>7</td>
<td>10</td>
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<td>(Cambodia)</td>
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<td>21. LAOS</td>
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<td>3</td>
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<td>203</td>
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<td>24. MALAWI</td>
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<td>26. MALI</td>
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<td>54</td>
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<td>Country</td>
<td>Per Capita Income 1972 $mil</td>
<td>Per Capita Growth Rate 1965-72 %</td>
<td>Literacy %</td>
<td>Population mid-1975 (mil.)</td>
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<td>27. Mauritania</td>
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<td>1.3</td>
<td>1.5</td>
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<td>28. Nepal</td>
<td>80</td>
<td>12.6</td>
<td>9</td>
<td>1.7</td>
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<td>1.7</td>
<td>0.7</td>
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<td>30. Pakistan</td>
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<td>2.1</td>
<td>1.8</td>
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<td>31. Rwanda</td>
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<td>4.4</td>
<td>1.7</td>
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<td>33. Sierra Leone</td>
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<td>34. Somalia</td>
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<td>57. Sri Lanka</td>
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<td>10-15</td>
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<td>36. Sudan</td>
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<td>2.9</td>
<td>2.0</td>
<td>15-20</td>
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<td>37. Tanzania</td>
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<td>11.4</td>
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<td>38. Uganda</td>
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<td>0.6</td>
<td>5-10</td>
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<td>39. Upper Volta</td>
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<td>7.0</td>
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<td>19</td>
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<td>41. YEMEN, Arab Rep.</td>
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<td>42. YEMEN People's Rep.</td>
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<td>100</td>
<td>-7.2</td>
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<td>170</td>
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</table>

APPENDIX IV

INVESTMENT ALLOWANCE

For enterprises whose fixed investment for every new job created is less than K.Shs. 100,000/- (US $12,500) the investment allowances are:

(i) 10 percent in urban areas other than Nairobi and Mombasa;
(ii) 15 percent in semi-urban areas;
(iii) 20 percent in rural areas.

For enterprises whose fixed capital investment for every new job created exceeds K.Shs. 100,000/-, the investment allowances are:

(i) 5 percent for urban areas other than Nairobi and Mombasa;
(ii) 10 percent in semi-urban areas;
(iii) 15 percent in rural areas.

The investment allowances are given by the New Projects Committee and implemented by the Income Tax Department, Ministry of Commerce.

Source: Investment Survey and Promotion Centre, Ministry of Commerce and Industry.
## APPENDIX V

### SUMMARY OF THE PROPOSED PROJECTS

<table>
<thead>
<tr>
<th>PROJECT TITLE</th>
<th>PROPOSED CAPACITY (Tonnes p.a.)</th>
<th>INVESTMENT (US$ million)</th>
<th>EMPLOYMENT number</th>
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<tbody>
<tr>
<td>5.1 Pineapple Growing and processing</td>
<td>30,000</td>
<td>4.5</td>
<td>800 - 1,000</td>
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<tr>
<td>5.2 The Production of cassava pellets for export</td>
<td>100,000</td>
<td>2.0</td>
<td>130</td>
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<tr>
<td>5.3 Extraction of Jojoba oil</td>
<td>3,000</td>
<td>2.9</td>
<td>200</td>
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<tr>
<td>5.4 Extraction of diosgenin from Penugreek</td>
<td>300</td>
<td>6.25</td>
<td>300</td>
</tr>
<tr>
<td>5.5 Glass containers</td>
<td>20,000</td>
<td>13.8</td>
<td>190</td>
</tr>
<tr>
<td>5.6 Sheet Glass</td>
<td>20,000</td>
<td>15.0</td>
<td>130</td>
</tr>
<tr>
<td>5.7 Caustic Soda</td>
<td>20,000</td>
<td>10.0</td>
<td>200</td>
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<tr>
<td>5.8 Sodium Chloride</td>
<td>80,000</td>
<td>6.1</td>
<td>50</td>
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<tr>
<td>5.9 New Motor Vehicle Tyre Plant for Kenya</td>
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<td>18.5</td>
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<td>5.10 Low density polyethylene</td>
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<td>5.11 Polyvinyl Chloride</td>
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<td>70</td>
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<td>5.12 Mini integrated steel plant</td>
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<td>375.0</td>
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<td>5.13 Grey iron foundry</td>
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<td>4.4</td>
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Source: Investment Survey & Promotion Centre, Ministry of Commerce and Industry.
REFERENCES


5. Extention Programme in Management, University of Bombay: Readings in Materials Management (Edited by P.R. Bapat).


8. Press Reports, The Times of India, Bombay, India.
