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IMPROVEMENT OF INDUSTRIAL ENTREPRENEURIAL CAPABILITIES OF INDIGENOUS PRIVATE ENTERPRISES, FOREIGN INVESTORS AND JOINT VENTURES

(The Case of Kenya)

Prepared by:

David Kimani
Consultant
P.O.Box 56667
Nairobi, Kenya

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CHAPTER I

INTRODUCTION

In all discussions held by African leaders on Africa's economic ills, colonialists have been blamed for the continent's backwardness. While the accusations levelled on colonialists are true, Africans do not seem to have taken positive measures to unyoke themselves from direct or indirect colonial domination.

One of the many steps which can be taken by Africa to reduce the continued bad influence of the former rulers is to define, restructure and implement economic policies which suit indigenous people of Africa even if such steps will temporarily and adversely affect the over-all increase of GNP.

Economic paterns of following Europeans' foot - steps can be found in agricultural wages policy. Due to the availability of cheap and sometimes forced farm labour, wages of agricultural worker in Kenya was Shs. 38 in 1955 as compared with Shs. 82.50 paid to industrial worker. That is, agricultural employee received 44.7% of his urban counterpart. In 1978, the agricultural worker was receiving 42.2% of the urban workers' minimum salary and his current salary is Shs. 255 per month or 58.3% of the minimum salary of urban labourer which now stands at Shs. 456. 1/ It should be remembered that most of the industrial workers in the early days of colonial rule were Asians which explain the cause of salary differentials.

Although agriculture is the backbone of most African economies, continued salary differential at a ratio of 2:1 does not encourage youths to seek employment in the rural areas.

Lack of enough food in Africa today is not accident but has been a recurrent phenomenon for years. While scarcity of arable land in some countries and crop failure due to seasonal drought are sometimes causes of food shortage, no effort seems to be forthcoming to reduce the effects of these natural calamaties. On several occasions, shortages of maize has been blamed on lack of storage facilities but no action has been taken to aleviate that problem. It is my feeling that the cost of building adequate storage is far much less than costs of some projects undertaken by the government and which may not have equal social benefits as availability of maize. While efforts to provide farmers with agriculture inputs to increase their output is necessary, it serves no logical purpose if the meagre crop that we harvest under the present circumstances is not stored. For this reason, I do not see how the country will double and store maize production in the year 2000 as projected in the development plan if we cannot reserve the small quantity which we are producing now. It should be remembered that a growing agricultural sector means increased income to the farmers and hence increased purchasing power for the industrial products.

It is estimated that apart from grants from friendly countries such as USA, Kenya will spend over £27,000 million to import milk and grain in 1980. 2/. In addition to failure of rain in 1979, farmers refused to plant maize because the government's withdrawal of G.M.R. It has now costed the government more money to import the maize than what it would have costed the treasury in terms of loan default which was the reason behind the withdrawal of G.M.R.

1/ Statistical Abstract, 1955, 1978 and Kenya Gazette Supplement No. 29, Legal Notice No. 55 of 1980.

2/ Seasonal Paper No. 4 of 1980 on economic prospects and policies.

It is obviously easy and plausable to deal with individual loan defaulters than the risk of importing food.

There are thousands of arable and semi-arable hectares in Kenya which can be utilized for the production of maize, wheat, rice and meat. We have many youth service men and women who can be used to grow crops. Activities of the National youth service should therefore be expanded from the present range of bridge and road building to include crop production on either the state lands or leased fertile private farms. National Youth Service scheme should be re-oriented to include training on farm management and repairs of farm machineries. These youths should be motivated and encouraged to take farming as their career. Apart from the National Youth Service men and women, there are approximately some 1.5 million youths aged between 15 and 20 years who are illiterate and school drop-outs. Some of these youths are attending polytechnics or craft centres sponsored by the Ministry of Culture and Social Services and being trained for self-employment particularly in cottage industries and other work groups. While this approach of youth development is recommendable, I feel that emphasis on farming as their commercial enterprises by leasing idle land should be encouraged. In short, priority in the agricultural industry has so far not received the support which it deserves and if it has, then there is something wrong somewhere. Agriculture is the base of our economic activities and Kenya must be self-sufficient in food and meat before moving to any other direction.

CHAPTER 2

THE INDIGENOUS PRIVATE ENTERPRISES

Before 1963, the industrial sector of Kenya's economy was predominantly European with a few local Asians like Chandaria family. After independence, Asians were forced to surrender commercial sub-sector of the economy, mainly retail and distribution, to Africans and were forced to migrate from Mombasa. Insecurity in the commercial sub-sector encouraged Asians to venture into the manufacturing sub-sector and to-day, they control at least 95% of all industries in Kenya which are not owned by either multi-nationals or jointly owned by the Kenya Government through parastatal organizations and foreign investors.

To indigenous, independence meant several things including taking over the country's economy from foreigners. To achieve this objective, government has used a number of strategies including granting of loan through the District Trade Development Joint Loan Boards, the Industrial and Commercial Development Corporation and the Kenya Industrial Estates. Other main agents being used by the Government to Kenyanize industrial sector are the Industrial Development Bank and Development Finance Company of Kenya.

District Trade Development Joint Loan Boards give a maximum loan of Shs. 10,000/=. In all cases, loan applicants are required to meet one or all of the following requirements: contribute between 15 and 50% of the total project cost. Produce land title or permanent building as security. Mortgage machinery and equipments bought with the loan. Provide guarantors who are people of high standing. In addition, Industrial Development Bank does not invest less than 400,000/= in any one project and does not invest any money in a project whose total capital cost including permanent working capital is less than 1,000,000/=. Loan applications normally take between 3 and 12 months to be processed and sometimes longer. Interest rate on loan is between 11 and 13%. Repayment period is 2-15 years including 3 months to 2 years grace period where applicable.

No formal, well defined management training, technical consultancy or other advisory services are provided. No guidance as to the source of raw materials or other supplies. No guidance concerning market penetration - connexion, advertisement, etc. I have not overlooked the fact that the Ministry of Commerce occasionally offers sandwich courses for traders in the provincial level and at the management Advisory and Training centre. The financing institutions also discuss problems which the loan recepients may be encountering in repaying the loan.

Are the indigenous expected to overcome the above obstacles and start challenging well informed and experienced foreign industrialists without guided assistance? Are they capable? The colonial education system which is still being followed by many African Nations was designed to make indigenous good imitators and inferior workmen. Highly educated African remain non-decision making executives in private sector. Governments are subjected to wrong advices and indigenous employed in the private sector are subjected to long, unending apprenticeship.

Entrepreneurship has evolved in countries where economic conditions have been permissive and where the government or the society has given security, protection or encouragement. In the 19th century, the British entrepreneur was almost assured of becoming a member of parliament if he succeeded in business and he had no problem in raising capital once he showed entrepreneurial talent. Economic achievement is glorified in United States of America where self-made men are national heroes. Because of this encouragement, Americans are in constant search for something to conquer, hence new methods, new markets, new products, etc. This is also true in Japan and other industrialized countries. This kind of spirit is alien in Kenya. A definite commitment to a course is required for any entrepreneurial growth. Faith in God was the puritans' drive to accumulate wealth. Faith in Nation and love for excellence were the motives behind success of Meiji pioneers of Japan. Honesty and responsible leadership in business are necessary for entreprenurial growth.

Indigenous entreprenurs in Kenya are faced not only with financial and managerial constraints, but lack of willing trainers and business leadership.

Despite the declared government's policy of African Socialism, Kenya's economic policy remains more favourable to multinational corporations or foreign investors than to the indigenous people. For discussion purposes, let us devide indigenous entrepreneurs in Kenya into three categories, namely: infant entrepreneur, young entrepreneur and mature entrepreneur.

An infant entrepreneur shall be defined as a school leaver who has not been exposed to any kind of business or employment. He has attained general education up to and including standard seven. This youth is literally raw and does not know what to do with himself. Until developed, he is a problem to the society rather than an asset.

A young entrepreneur shall be defined as a school certificate leaver or above; a youth brought up in a business family or someone who has employment experience in industry or in commercial firms. He might have tried to run his own business without success because of limited technical, managerial skill or capital. He has ideas of what he wants to do but the environment is not conducive. His predicament is a source of frustration and feeling of unworthness. He is psychologically lonely and constantly questions the use of his education. He considers his education as being the major cause of his problems because it enlightened and exposed him to superior life style enjoyed by other races whom he envies. "I am a graduate in electronics and communication engineering", said a young man. Before returning to Kenya, I worked with an international

organization for six years in the capacities of design and development engineer, chief production manager in a department with 150 technicians, 12 engineers and over 200 inspectors".

"I decided to return to Kenya to start my own company. I approached Kenya's financial institutions and I was subjected to intensive questioning including demands to produce securities for the loan that I was applying for plus my contribution of 25% which amounted to Shs. 350,000/=. I had 100,000 when I arrived in Kenya. I tried to raise the remaining Shs. 250,000 from family members or possible partners without success. At the same time, my expenses were being met from the Shs. 100,000/= which I had brought with me. The loan could not be released to me without my contribution which I failed to raise, and therefore I had to drop the idea of my venturing into industry. I began looking for a job and I am now working as a factory manager with an international company in Nairobi".

An ex-student of an American University writing to a local newspaper on his return from USA had the following to say about the plight of educated youths in Kenya:

> "The pathetic situation awaiting Kenyan students and ex-students upon their return from the United States and elsewhere is so painful. I would advise them not to return unprepared for the agonies and certainly not before securing a reasonably satisfactory job".

"It is sheer folly for Kenyan officials to go around the US suggesting a lack of patriotism on the part of those who have not returned and giving them false hopes and promises about the desirability of their education and talents in what they invariably term nation-building.

One partly embarks on acquiring a sound education to better be able to help building this country and in the process develop himself, his family and others not endowed with similar opportunities. But a Kenyan who returns assumedly as a gesture of patriotism or just to return home - without an appropriate job faces a possible long period of unemployment, under-employment or misemployment with all the attendant frustrations and humiliations.

It is really most frustrating and alienating for one to return to a state of financial dependency upon his poor parents who have in the past denied themselves so much to ensure him a good education.

To most Kenyan eyes, a person who is unemployed and propertyless, hence without a source of income, is of little if any value, and worthy of only condescending and patronizing contempt. To them he/she is a failure; his education must therefore, also be questionable. By this concoction of logic the victim becomes the cause!.

This happens even to people who have worked at responsible and prestigious jobs in the United States some of them even having taught at Universities there for years. Needless to say this fate does not befall those whose parents or relatives are well off.

In the US most Kenyans deport themselves with a sense of dignity that is a credit to Kenya and Africa. They will not tolerate open racial humilation in one of the most racist countries in the world. But even when they suffer some racial indignities they always console themselves with the rationale that after all they are but temporary sojourners in an alien land. But back in their mother country, they find that all, too often, they are treated as undesirable aliens.

Kenya is of course one of the greatest havens for ex-colonists and their fellow expatriates. A Kenyan graduate living in Nairobi West, Pangani or Kariobangi South and trying to make ends meet in these inflationary times is indeed a sorry specimen compared to his White expert ex-class-mate at Columbia, Princeton, Wisconsin, Cornell, etc. who earns five times as much, spends weekends at the Golf-clubs and evenings at lavish parties".

These type of human resources are in plenty in this country and elsewhere in Africa and need to be mobilized and utilized. And finally, a mature entrepreneur shall be defined as a person who knows business. He has started, organized and operated enterprises either his own or as employee. He has the know-how and can present his case to a bank and get the loan he wants. He however, cannot expand because his suppliers are also his competitors in the market. "You do not expect an indigenous industrialist to compete in the world market with the suppliers of his raw materials. You do not expect a distributor or retailer to make profit when competing with his manufacturer. Why should some textile companies be allowed to spin, knit dye and make garments? Why are we producing at 20% capacity because of price under-cutting? 3/ Each of the above three categories of indigenous entrepreneur requires assistance at different level and this is what it is in the cottage, small and medium size industries. Artisan-shops need assistance to transform them to small factories. Small industries need modernization, growth, etc. Medium industries are indeed of assistance to help them expand, increase productivity or efficiency and compete favourably with the multinational companies. Of course all groups need efficiency and increased productivity.

Because these enterprises are incapable of engaging their own specialists of various functions, a Government supported agency should be created to liaise and advise entrepreneurs where and when to get different kinds of services or assistance required for their imporvement.

What is happening within the indigenous owned private industrial enterprises? What are their problems? Some managers or manager - owners visited by the writer had the following comments about their organizations:

> "We were helped by the K.I.E. to work out feasibility study. There should be a government body to help indigenous identify projects and work out a feasibility study. Infact Africans particularly in the rural areas think of opening shops, hotels or bars because that is what they see other people doing. Asians will not give you any information about the market. It is only a government officer who can collect market data or pre-investment information. Foreigners will never tell you how much they produce or sell. They will never tell you where they get their raw materials or machinery. When we need trade information from outside Kenya, we use our Embassies or our current suppliers provided the information required does not conflict with the suppliers' interest.

3/ Some complaints expressed by an indigenous manager in a textile industry.

But this is very difficult. You may put youself into trouble if you try to get raw materials from someone else in the same country as your original or current supplier. Workers can increase productivity if they own shares in the company. We pay levy to the Ministry of labour and we have been sending employees to the polytechnic for courses. We are still finding difficulty to retain employees with managerial skills which is needed most. We use profit to evaluate management team but sometimes it is too late to make necessary correction when we discover poor performance at the end of the year. Prices of our products are controlled. We import 95% of our inputs. When we try to export our products in countries where our suppliers of raw materials are also the suppliers, the prices of our imported raw materials go up. There are two other companies who use same materials like ourselves and they do face the same problems. We do help each other when one runs short of similar raw materials. We use a trade mark in one of our product and we pay 3%. Government should review its lending policy to enable every capable indigenous engage in industry. For example, every viable project should never be abandoned because the sponsor cannot raise his contribution or because he has no security for loan. Instead, the financing institution should join in partnership until its loan is fully paid back".

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"The price of local raw materials is higher than the price of imported raw materials although the quality of the former is poor. This is because of inexperience of local producers and over protection. There should be proper control of industries, professional assessment of machinery, installation and commissioning. An independent expert should be involved from the time of feasibility study until the plant begins production. Foreign partners in joint ventures should not have a voice in the selection of machinery and installation. Experts charged with the establishment of industries should have nothing to do with the new company. Foreigners have been given a freehand in Kenya. General superintendent checks specifications of machinery against the licence but not whether the machinery are old, costly or cheap for that matter. Competition between small and big companies should be stopped, i.e. if something can be produced by a small indigenous company, big companies should not be allowed to produce it. Big textile industries should concentrate on capital intensive part of the industry and subcontract labour intensive aspect to small industries. Heavy duties should be imposed on automatic machine which will reduce labour employment. The big textile mills namely, sun-flag, Rivertex, Kicomi, Torry Mills and Raymond Kenya should do the spining, dyeing and processing, and then subcontract knitting, and weaving. Ordinary quality of garments should be made by small industries. Small industries should be in rural areas. Every local investor is expected to get land on his own which is wrong. Government should help small industrialists get land to build factories or simply the buildings. Local authorities discourage indigenous industrialists by demanding compliance of law without helping or advising industrialists how to go about to establish an industry and conform with the legal requirements, e.g. provision of effluent. Government or local authority should ensure that a land, water and electricity are available before the project is approved. Unutilized land hindering establishment of industries should be taxed heavily. Joint ventures between indigenous and government should be started where the indigenous contribute know-how. Loan should be given to indigenous to enter joint ventures with foreign investors. Government should

create a commission or organisation to track down and keep a record of all qualified craftsmen, engineers, technicians and entrepreneurs. Big companies should be required to train indigenous for national development whether these nationals are their employees or not. Workers' participation in the management may not work at this stage."

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"We manufacture Agricultural hand tools. 50% of our new materials is imported. We buy raw materials from importers or third party. The government can help very much if it arranges for bulk purchases or bulk import scheme for the raw materials. Our machines break now and then, we need better machines to improve our production. Our company is not doing well because of lack of trained manpower. Lack of quality raw materials and illegal importation of goods are spoiling our market. We should have an association of small scale manufactures to take care of the small industries. Loan security system should be relaxed because we cannot get funds to expand. Government does not give us much assistance leave alone inducement that it keeps on talking about. We import spare parts and maintain our plant ourselves. We have ploughed back more than Shs.½ million. We started with three employees and now we have 33".

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"We manufacture wooden cloth pegs. 50% of our raw materials which is wires is imported. We buy direct from the manufacturers. Our main problems are machine break-down and delay in getting raw materials or packing cards. We used to produce at half capacity when pegs were imported but to-day, we are able to sell what we produce. The machines are old and we cannot get money to replace them because we have not fully paid the loan to the KIE. We could not have paid earlier because of the marketing problem which we started with. The operation can be stopped for several days or weeks while waiting for spare parts from either KIE or abroad".

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"We manufacture Shovels, Pangas, Locks and padlocks. 70% of our raw materials is imported. It takes a long time to receive the materials. The government should speed up processing of import licences for raw materials".

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"20% of our inputs is imported. Government should wave some requirements for importation of raw materials. We are not happy with the government licensing system, very cumbersome. Our machineries are serviced by agents like IBM and Gestetner".

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"We are only 12 months since we started operation. We had problem of getting premises and the problem of getting enough power installation. We had to pay the East Africa Power and Lighting a lot of money to have them instal a transformer. We also had trouble with the council because we needed more water and gauge of pipes had to be changed. Total costs of the project has more than doubled. If the shareholders were not people with other resources, this company could not have got off the ground. We had underestimated the costs and we never made provision for inflation or other eventualities".

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"Africans found well established business men, Asians, and they want to compete with them. How can a rabbit compete to lift a weight with an elephant? They should forget competing with Asians and let their growth to size take a natural cause. Otherwise they will remain frustrated. 90% of African industrial owners are not operational. They hold jobs elsewhere and have employed managers who are poorly paid. These managers have no drive or motivation. They should be paid well. Other Africans diversify too early particularly taking money from industry to buy lands. This money should be ploughed back to the factory. Infact very few Africans if any have one business. Nearly all Africans who try to pick-up in industry rush for big cars, big houses and join golf clubs. They imitate western life style enjoyed by senior local executives employed by subsidiaries of multinational companies too soon. This drain any profit that might have been saved and re-invested. They (Africans) are very much after power and prestige. Diversion of borrowed money to other uses is common. Very often you see some people applying for expansion loan from the bank and when they get it, they use the money to buy farms. We should be honest. Tell the customers the truth and they will come again. The desire to get rich quickly, to be like Asians is the major cause of investing in commerce and real estate rather than in industries which hold money for along time. This explains why smuggling is common".

To increase their capabilities and effectiveness, indigenous private enterprises need practical support on finance or capital, management organisation and development, training and regular factory to factory visit for counselling.

FINANCE

While capital is not the determinant for industrial entrepreneurial success, no doubt that it plays a very important part in the establishment, the operation and expansion of any industry. As it has been quoted above, it is common to find qualified, experienced and very committed indigenous shying away from industrial ventures because of the stringent requirements demanded by government financial institutions. In terms of security requirements, sponsors' contribution and the rate of interest, there is no difference between a commercial bank and the government financial institution. When Commercial Banks are satisfied that a project is viable, it takes relatively short time to process the loan application than what it takes the government institution.

Interviewed managers in the government institutions have admitted that the current lending system needs restructuring to take into account individuals' personal commitment to the project and the risk they take to leave their jobs and other activities for industrial ventures. It was the feeling of most interviewees that viable projects should not be abandoned simply because the sponsor has no securities or contribution to offer. They felt that the present system of loan grant is intended to assist the rich but not the poor. Viability of a project plus sponsor's technical or managerial capability and his commitment to the project should be enough creteria for the grant of an industrial loan.

MANAGEMENT ORGANIZATION AND DEVELOPMENT

Nearly all managers or proprietors of indigenous private enterprises do not have clearly defined objectives as to why they are in business. All what they know is to make money. It is difficult for them to detect weaknesses of their performance well in time and make necessary correction. In short, they operate on a day to day basis which makes their chances of success very slim indeed. Management assistance is

required to help them improve their effectiveness, efficiency and productivity. Ignorance of the importance of good management, planned and directed objectives do contribute to some employers unwillingness to release their workers for training. This in turn increases inefficiency and high production costs.

TRAINING

Almost every interviewee has expressed the need for training either in general management, accounts and Book keeping, production and cost control, marketing and many other courses. Lack of training is actually blamed as the main cause of Africa's industrial predicament. But, can we say that no training has been taking place in the last twenty years of our independence? Can we say that we have just discovered the importance of training? What type of training have our people been receiving? One of the answers to these questions is that our people have not been getting the appropriate training for if they have, there could not be chains of un-ending on the job training which are subjected to some indigenous including University graduates. A near permanent on the job training scheme is an internal cause of frustration.

According to the Director of Industrial Training of the Ministry of Labour, Shs. 38 million out of Shs.100 million of levy contribution has been utilized since 1971. If training of indigenous people is taken seriously, Shs.62 million should not be lying idle. If individual companies cannot send employees for courses on their own, this money should be given to an agency charged with the responsibilities of training and advising entrepreneurs for utilization.

Except where indigenous private enterprise is enjoying monopoly or excessive protection, none of the firms visited demonstrated or expressed its capability to compete with either joint or foreign investors even though their indigenous) products are of good quality by the local standard except Madhupapers International Limited, manufacturers of toilet papers, whose General Manager had the following to say about his Company:

> "We are now three years old. We are going to commission a Shs.30 million plant, now being installed, by the end of the year to boost our production of tissues and to enable us produce MG tissues for bread wrapping and other uses. Until now, Kenya has been importing bread wrappers. This is our second phase. Our third development programme will be the installation of a plant to manufacture Newsprint by July, 1981. All newsprint used in Kenya are imported. We are building a canteen for our staff where they will have meals at subsidized rates. I have full confidence in my managers. We meet every Monday and discuss openly about the Company's performance department by department. Trust is very important. You should respect all the employees and pay attention to their problems. Show appreciation of what they are doing and they will respect you. A competent, efficient and coherent management team is the secret of success in industry. Some bosses do not want to learn particularly from their subordinates. That is very bad. You should be prepared to learn and to listen. I am not an office boss. I visit and discuss with staff in every section. Protective maintenance of the machines is our policy. They are kept very clean. If you cannot manage your industry, employ qualified people, pay them well and delegate effectively. This is why we are expanding very fast. We do not find difficult in borrowing money from the banks. Money is not the problem, the problem

is management. If you manage your finance properly, you will always get loan from the bank. Africans fail in business because of over commitment. Stick to one line. It is bad to take a risk halfway. That is, if you could risk your money in investing, why not risk your job? Resign and go to manage that investment! We do not fear Asians. We can do what they are doing or even better. Infact I do not know why some Africans complain about Asians while knowing very well their problems, i.e. Africans are Jack of all trades and master of none".

CHAPTER 3

JOINT VENTURES: THEIR PRESENT AND FUTURE ROLE IN INDUSTRIAL DEVELOPMENT

Joint ventures in Kenya are mostly between foreign investors and Kenya Government through one or more statutory Boards.

Except where indigenous entrepreneurs are involved, joint ventures between the government and foreign investors are characterized by huge investment outlays and high risks which foreign investors are not willing to take without protection from the government. At present, ICDC alone is holding shares worthy over Shs.350,000,000/= in such joint ventures and another Shs.150,000,000/= in its subsidiaries. 4/

Improvement capabilities of joint ventures are normally hindered by conflict between the parties as demonstrated by the following views expressed by managers working with jointly owned companies.

"This is a joint venture. The shareholders are M/S Industrial and Commercial Development Corporation (ICDC), Industrial Development Bank (IDB), Agricultural Development Corporation (ADC) and three foreign investors. Each share-holder is represented by a director. In the management, the Financial Manager, Production Manager and Agriculture Manager are foreigners. There has been a conflict as to who should appoint the chief executive and there is heated arguments when you come to appoint other key personnels. There was a management contract until 1977 when a local general manager was appointed. Foreign investors are the sole buyers of the product and they do the marketing. Local partners are complaining about this arrangement because prices are dictated by the buyers. This conflict weakens the management and hence delay in development and expansion decisions. There has never been an agreed policy on training. Foreigners do not want to be replaced. They measure their (foreigners) understudies qualifications and experience against their (foreigners) own. Raw materials are never ordered in time because of conflict as to the source. Two consultant firms have been engaged at different stages. One was a local company and other one foreign. They were mainly dealing with financial management. In joint ventures, management agreement should be defined clearly and should not be violated. For example, it should be agreed that the chief executive will be a local person and the financial manager or director will be a foreigner or vice versa. Marketing policy should also be defined. Export compensation system is helping us sell to the E.E.C. We do contribute to the training levy but we have sent only two trainees to the Polytechnic since we started

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4/ ICDC annual report 1977/78

this Company. The I.T.C. (International Trade Centre) Switzerland has helpted us find market in Europe. The Association of manufacturers has not been as helpful to us as the Federation of Kenya Employers. Any Company dealing with food processing should have its own farms because farmers do refuse to grow or to sell to the factory if the substitute crop is more profitable or if the price outside the factory is better. Our research section is concerned on the suitability of soil for growing vegetables".

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"Only a small percentage of our inputs is imported. We buy raw materials (flour) from millers. We think backward integration is not economical and will probably hinder government policy of equitable distribution of wealth. We however, feel that instead of giving loans to farmers, growers should be paid in cash whenever they deliver the wheat. There is always a demand for bread but sometimes we produce at 50% capacity particularly in Nairobi because of shortage of raw materials (flour)".

According to an official of the Industrial and Commercial Development Corporation, foreign investors are invited to participate in joint ventures when they promise to meet the following conditions: Bring resources - funds, materials not available in Kenya, provision for market accessability and transfer of technology, Kenyanisation of personnel and issue of shares to indigenous after some unspecified time (the ICDC investment company is used to acquire shares on behalf of citizens). ICDC has entered into joint ventures with indigenous in two bottling companies and it has kept a confidential record of indigenous who can contribute at least Shs.50,000/= at a go if called upon to join profitable ventures.

Indigenous investors are not prepared to invest their meagre saving in projects likely to take ten years or so before a dividend is declared. There are also some projects which are not attractive to foreign investors and ICDC has to put more money then what would otherwise be invested by any other party. The conflicting position of ICDC is that despite its role of assisting indigenization of the economy, it has to earn some profit in order to generate more income.

In this respect, most of the ICDC's joint ventures are not the best in terms of social benefits but are those projects which are thought to be good profit earners. Because of this profit motives, ICDC has failed in its tasks of developing indigenous entrepreneurs. Despite ICDC claim that indigenous control managements of joint ventures where the government has majority share holding, investigation on companies involved revealed that foreigners, whether owning majority shares or not make all policy decisions. A senior official of the ICDC who was interviewed by the writer had the following comments to make about his organisation and its subsidiary or associate companies:

> "All indigenous sponsors for small scale industrial projects are required to contribute at least 20%. We do not give loans for medium or large scale industries but we join them and contribute equity. During crisis, we lend some money to save the situation or to safeguard our equity. We do advise on feasibility study, selection of machinery and installation as part of loan processing. As soon as the company starts operation, we do not see the need of interferring with the industrialists except when they default loan repayments. In any case and unlike Kenya Industrial Estates, our clients are spread all over the country that we cannot get manpower to follow them up. Our subsidiaries are manned by Kenyans. In Associate companies, we are well represented in the management. Sometimes

we have joint managing directors. The main functions of ICDC is to mobilize and co-ordinate resources in joint ventures some of which involve several parties like citizens, IDB, DECK, foreign investors and other government Corporations. Indigenous venturing into small scale industries come with ideas and the ICDC officers help shape these ideas. We do admit that we are not able to give indigenous entrepreneurs all assistance they need. For example, we do not help rehabilitate failing projects or involve ourselves in putting such projects into proper footing. We also admit that the present system of selecting clients need restructuring to enable genuine entrepreneurs receive loan instead of giving to the rich and influential people. In my opinion (interviewer), loan grant should be based on:

Skill of the applicant, commitment of the applicant and his family to the project. Influence and property should not be used to appraise quality of client or loan. Property and influence precipitate failure because the scrutinizing officer is biased. Sponsors should not be penalized when project is delayed by some issues not within their control. ICDC uses chiefs' Barazas and pamphlets to inform Kenyans of its activities.

ICDC uses its investment company to distribute wealth. Incentives to small scale industrialists include: Loan up to 80 per cent of the cost of projects, security is machinery or plant together with land on which is situated. Assistance in confirming or refining the feasibility study which can increase the loan applied. Grace period is 6 - 12 months as opposed to nil for commercial loans. Payment period is 3 - 7 years as opposed to 5 years for commercial loans. Maximum loan is Shs.2 million as opposed to Shs.350,000/= for commercial enterprises. Interest rate is 11% for both industrial and commercial loans. ICDC measures success of its subsidiaries and associates by: Increased participation of Kenyans in management. Increased re-investments. Degree of backward or vertical integration. Quality improvement, export achievement, industrial stability. Overruns may be provided if nobody else can do so, e.g. if all securities are held by us, securities required include: land or building, plant itself or project itself, personal guarantee of the loan, debenture, chartels, mortgages or joint registration. Minimum contribution required is 20%.

The number of loan defaulters has decreased because of: better vetting of the projects in the field. Better evaluation of the projects in head office. Better follow-up where necessary, decline telephone managers or increase of operational managers. Five companies were given expansion loans during the last two years. ICDC has a record of suppliers of equipment and machinery but we do not inform prospective entrepreneurs because most of them come to us well prepared. All subsidiaries and associates companies deal with their management problem including employment of consultants alone".

Joint ventures like indigenous enterprises are capable of accumulating saving and re-investing the profit where the principal shareholder is the government or a parastatal organization. Joint ventures are capable of creating more jobs and distributing income more equitably by integrating their production backward by owning ranches and agricultural farms where several people can be employed. Joint ventures can also distribute income equitably by selling shares to maize growers in the milling corporation, to

ranchers in the Kenya Meat Commission and to vegetable growers in the Pan African Food Company. Joint ventures are capable of training indigenous entrepreneurs particularly by refusing foreign investors to control the management of companies where the parastatal bodies or the government have majority shares. Joint ventures are capable of producing more commodities because they are not blocked by anybody from getting as much raw materials as they want".

CHAPTER 4

FOREIGN INVESTORS

4.1 THEIR PRESENT AND FUTURE CONTRIBUTION

Total reliance to parent organisations for all imported raw materials, intermediate industrial inputs, technology and management are the characteristics of the foreign companies in Kenya. A few indigenous executives employed in the private sector are nothing more than denationalized individuals whose main function is to influence policy makers in the government and other authorities in order to favour foreign investors in such fields as work permits, licensing, foreign exchange, wages and benefits policy and all forms of protection. Ironically, these African collaborators have their services terminated as soon as their effectiveness and influence on government officials deminishes.

In marketing, foreign companies completely dominate the field mainly because of their advertising capability and their experience. Yet, when indigenous entreprises cry for protection, the locally incorporated foreign companies also demand similar protection, always threatening to close down and render thousands of workers jobless. Within the last three months for example, three multinational companies have reduced their activities and declared several indigenous employees redundant due to alleged loss of business or some other flimsy excuses. These companies are the Coca Cola Africa, Metal Box Kenya and Burroughs Machines Limited. Reliance on foreign investors as a major source of employment and economic growth is therefore a big risk and should be minimized.

Another characteristic of foreign enterprises in Kenya is the high salaries and benefits enjoyed by expatriates and their few African friends as compared to majority of workers. This has contributed a great deal to poor distribution of income and the creation of social classes. This can be demonstrated by a quick look at the standard newspaper property advertisement column which shows that clients of real estates firms are primarily foreigners. Some of the managers interviewed by the writer made the following comments about their companies

> "The payments which we submit to the parent company annually include royalty fees for technical and advisory services which in our company has increased several times. The local Board of Directors cannot commit over one million pound in capital expenditure without authority.

The local Board cannot appoint a director, declare dividend or introduce/ manufacture a new brand without authority. Only 20% of our raw materials are imported. Thika plant was located there to spread industries outside Nairobi as required by the government. Our main area of re-investment is in new and modern machinery to increase efficiency. Local technicians have been resigning of late and we are reviewing their salaries. Our training School for operators, technicians and field officers is well established and its facilities are sometimes used by the Kenya Polytechnic. We do not export our products because we have branches all over the world except Burundi and Ruanda in Africa. Sometimes associated companies make request of our product and we send them what they ask for. Our average daily production is 3.5 million cigarettes. Procurement or purchases is done centrally from the Head Office and Kenya Company, like any other associates is charged by the parent company for the services rendered under technical services arrangement. Expatriate employees go home annually for medical check-up and the expenses are remitted. The marketing director, financial director and the assistant general manager who is also vice chairman of the company are expatriates. Our company will not approve workers participation because they will introduce trade unionism in the board as they did in Ghana. It will also be difficult to sack employees if they own the company. There will also be difficulty during retirement because the outgoing employees would insist on bringing in their sons or daughters to replace them whether a vacancy exists or not. The company has a pension scheme and provident fund in addition to the National Social Security Fund which is mandatory. Our company is already doing enough to help Kenya and her people as compared to other foreign companies".

x x x x x x x

"We are a subsidiary of Philip Development Corporation which provides management services including appointment of chief officers. There are four associate companies in Kenya. The chairman and the managing director, financial manager, professional manager and the factory manager are seconded to us from Philip Development Corporation. There are no understudies. About 98% of our products components are imported. All what we do here is to assemble them. Benefits for senior staff include School fees, transport, lunch and provident fund. Bonus is paid annually. No employee is allowed to join a trade union or association. Training is always paid for by the company".

x x x x x x x

"When the ICDC bought shares in 1970s the name of the Kenya Bottling Company was changed to Nairobi Bottling Company. ICDC is represented in the Board but not in the Management. Although Nairobi Bottling Company is an independent company, management is under Coca Cola Africa which appoints the chief executive and other key personnel. The Mount Kenya Bottling Company and the Eldoret Bottling Company are wholly owned by Kenyans and ICDC but under a licence. No special benefits apart from the statutory ones are given to junior staff - but senior executives have fees of their children paid plus other benefits like fees, cars. Notice period in terminating services is one month for all locally recruited staff including senior staff".

Press or print media could improve and assist rural industrial development by assigning reporters to each district or province ro cover industrial activities. A special column for Rural Industrial Development news could be created but we do have a business column where all economic issues are discussed".

The history of economic revolution throughout the world tells us that no industrial development or growth has ever come about particularly during the transformation period without displacing a section of the society. I therefore believe that Africa will not industrialize if we continue to focus on pleasing or compromising with foreign investors. What happens when foreign investors drain more capital than what they had brought in? What actions has the government taken against foreign investors who have failed to live up to their promises?

It has been stated in this paper that foreign investment can be withdrawn and infact has been withdrawn, when the investor felt that it was no longer profitable, whether Kenyans were to lose jobs or not. It is therefore true that no foreign investors are in Kenya to help us achieve our common goals or objectives of development but to either expand their operations or protect their interests. Having established that foreign investors are here for their own benefits, the government should, on its part, take the following actions which will be beneficial to the country without denying foreign investors the right to operate industrial enterprises in Kenya. All foreign companies should be required to sell voluntarily at least 50% of their shares to indigenous within five years. If the sale is not completed within this period, compulsory sale should be effected. New foreign investors should be required to have indigenous as their partners on a 50 x 50 basis as a first condition. Every large company in Kenya, whether local, joint venture or foreign investment should be required to start its own research and development division or contribute to the government's research institute. It should be a condition of establishing an industry in Kenya or continuing to operate existing industries in Kenya that Kenya products will be sold in foreign companies' other markets in the world. Here, the argument will be brought up that Kenyan goods are inferior, expensive, etc. These arguments should be rejected on the ground that the technology being used in Kenya is the same technology that is being used anywhere else. Efficiency and productivity should be improved through meaningful and effective training. Alternatively, multinational companies already operating in Kenya and unwilling to interfere with their home markets should be required to integrate backward to get raw materials or join with the government in financing industries of intermediate inputs such as integrated steel mills and or chemical plants.

To date, performance of foreign investors is being measured by the creation of jobs which is fallacious because people would have been employed anyway. Contribution to GNP which is again erroneous because whatever wealth is being generated by those industries belong to foreigners. Saving in foreign exchange which is misleading because it compares what was saved by not importing certain products without considering what benefits were actually received and retained by indigenous as a result of the establishment of new industries in Kenya. Other institutions such as banks are in Kenya to serve particular ethnic groups of the society and hence, do not try to establish branches in the rural areas where such groups do not live. Even if these institutions are contributing to GNP, employment, and the likes, their contributions are by-products and no effort has been made by them to promote the welfare of indigenous. In addition to the above points, foreign investors can improve and increase their contribution towards higher rate of economic growth by seriously and meaningfully training and developing entrepreneurs by delegating more policy decisions to their managers. Increasing employees' productivity by providing job security through the sale of shares.

Increasing non-statutory benefits such as health insurance, pension scheme, housing or housing allowance, retirement benefits, private insurance and bonus during Company's good years. Except that some of Kenya's social and economic responsibilities are also their responsibilities and hence desist from closing down a factory because it is not very profitable. Agree to join indigenous investors voluntarily and without government guarantee in the first place. They should also try to cultivate a climate of social trust as Kenyans have accepted the non-racial concept of our society.. If the social harmony in Kenya will break down, the blame will heavily lie on non-indigenous who continue to question African trustworthness and capability. Performance of foreign investors should be measured on the basis of the above criteria among others.

4.2 APPROPRIATE TECHNOLOGY

At Kerita Forest - 60 kilometres from Nairobi, installation of an automatic, very sophisticated timber processing plant is nearing completion. The plant, brought from Japan at Shs. 12 million will retain approximately 25% of the former employees of that company who averaged between 100 and 120 before the installation and the application of this modern Japanese technology. In addition to the production of timbers of all sizes, the company will manufacture charcoal briquettes from the Sawdust obtained from wood milling. Inhabitants of the locality are complaining saying that apart from loosing jobs as a result of this new plant, they will no longer get the sawdust which they were using to make manure and protecting their animals and chicken from soaking by spreading it in cattle and sheep Bomas and chicken houses.

What this means is that as long as decisions on the choice of technology remains the discreation of individual investors, adoption of labour intensive technology in Africa is a farfetched dream that will never materialize.

Although foreign investors and their expatriate employees have helped Kenya a lot in its endeavour to industrialize, they have been the biggest obstacles towards indigenous entrepreneurial growth. In the field of transfer of technology, foreign investors have deliberately refused to train indigenous with a purpose of making them (indigenous) independent thinkers and decision makers. A new approach of developing managers such as exchange programmes between similar organizations or enterprises in different countries should be explored where on the job training will not be hindered by the expatriates' fear of being localized. For example, managers in the textile industry can be sent to work in Japan for a period when Japanese firms send their managers to work in Kenya. One will also find expatriates employed in consumer goods industries whether the company is an indigenous, joint venture or foreign company refuse to change the composition of the ingredients of the product to suit local taste even if the taste of the original country is not liked by local consumers. If foreigners will go all the way to force local people consume what they (foreigners) want them to eat or wear, how can they trouble themselves to find appropriate technology that is suitable to a host country?

Where the large foreign or joint ventures are required to sub-contract small industries, they should initially give technical assistance and advice to small industrialists instead of simply saying that Africans can't do it! There has been a lot of saying that <u>Africans cannot</u> and this should be reduced by letting them do and make mistakes.

It is my feeling that the immediate task of the National Council of Science and Technology is to establish the level of our technology in our industrial sector. An industrial research division which will liaise with the small and medium Industrial Advisory Agency will then base its research on what we have and where we are. Technological problems faced by industrialists should be the focal point of industrial research activities.

4.3 CONSULTANCY FEES

Government expenditure on consultancy has increased from £5,679,749 in 1977/78 to £15,364,135 in 1980/81 estimates. Local provision includes consultancy fees paid to firms or experts resident in Kenya whether indigenous or not while external provision means consultancy fees paid to foreign companies not incorporated in Kenya or to experts who came to Kenya for specific consultancy services.

The sharp increase in the external provision from £992,156 in 1979/80 to £4,644,336 in 1980/81, i.e. an increase of 336% probably demonstrates how dependent we are on foreign experts.

What is noticeable from Table 1 is that no consultancy fees have been voted for the Ministry of Industry and that the consultancy expenditure in the Ministry of Commerce which previously included industry is significantly small - that is £55,000 in 1980/81, £95,000 in 1979/80, £131,600 in 1978/79 and only £34,000 in 1977/78.5/

This supports my arguments that the government should pay more attention to the development of indigenous entrepreneurs by creating a small and medium Industry Promotion Council to guide and advise existing and potential industrialists.

4.4 FUNDS FOR CONSULTANCY SERVICES IN THE MINISTRY OF INDUSTRY

Before 1977 (the death of the East African Community), Industrial Research and Consultancy Services were conducted on the East Africa basis. Votes for industrial consultancy by the Kenya Government were included in the Community's allocation. The Ministry of Industry was created in 1979, separating it from the Ministry of Commerce whose financial votes for Consultancy were K.£.34,000, 131,600 and 95,000 in 1977/78, 1978/79 and 1979/80 respectively. After the split of the two ministries in 1979, expenses for the Ministry of Industry continued to appear under the Ministry of Commerce. All expenses under the combined Ministries of Commerce and Industry have been spent on paying locally incorporated Companies or meeting some expenses of seconded experts in the Industrial Survey and Promotion Services or in the Kenya Industrial Research and Development Institute engaged mostly in Project Feasibility Studies.

5/ Office of the Vice President and the Ministry of Finance.

CONSULTANCY EXPENDITURE OF THE GOVERNMENT

	FINANCIAL YEAR 1980/81		FINANCIAL YEAR 1979/80		FINANCIAL YEAR 1978/79		FINANCIAL YEAR 1977/78	
	Local Provision	Local Provision	Local Provision	Local Provision	Local Provision	Local Provision	Local Provision	Local Provision
	K.£	K.£	K.£	K.£	K.£	K.£	K.£	K.£
1. Office of the President	169,310	84,650	50,000	-	70,500	-	-	-
2. Ministry of Economic Planning & Development	87,750	-	85,000	-	-	-	-	-
3. Office of the Vice-President & Ministry of Finance	-	-	-	-	80,000	-	65,000	-
4. Ministry of Agriculture	989,060	389,010	665,422	10	74,940	6,005	128,750	15,000
5. Ministry of Health	10,030	5,000	5,101	5,000	-	-	30	-
6. Ministry of Works	1,300,000	-	1,657,500	-	1,490,000	-	1,280,000	-
7. Ministry of Transport & Communications	2,920,040	1,520,000	242,040	62,000	262,040	147,010	526,020	222,000
8. Ministry of Labour	85,500	-	-	-	-	-	-	-

	FINANCIAL YEAR 1980/81		FINANCIAL YEAR 1979/80		FINANCIAL YEAR 1978/79		FINANCIAL YEAR 1977/78	
	Local Provision	Local Provision	Local Provision	Local Provision	Local Provision	Local Provision	Local Provision	Local Provision
	K.£	K.£	K.£	K.£	K.£	K.£	K.£	K.£
9. Ministry of Tourisim	20,000	-	436,410	-	183,000	110,743	29,010	-
10. Ministry of Urban Development & Housing	120,010	-	-	-	-	-	-	-
11. Ministry of Culture & Social Services	-	-	25,000	-	10	-	10	-
12. Ministry of Water Development	2,161,070	1,414,150	2,763,380	683,636	1,976,020	600,600	1,831,070	1,033,020
13. Ministry of Environment & Natural Resources	362,220	113,812	204,600	-	195,687	-	225,970	-
14. Ministry of Co-operative Dev.	358,039	109,944	234,140	-	-	-	-	-
15. Ministry of Commerce	55,000	-	95,010	-	131,600	-	34,000	-
16. Ministry of Higher Education	104,750	29,750	258,050	241,510	152,520	110,550	165,910	123,950
17. Ministry of Energy	797,030	747,020	-	-	-	-	-	-
18. Ministry of Basic Education	330,010	231,000	-	-	-	-	-	-
19. Ministry of Industry	20	-	-	-	-	-	-	-
20. Cabinet Affairs	850,000	-	-	-	-	-	-	-
TOTAL K.£	10,719,839	4,644,346	6,721,562	992,156	4,616,317	974,913	4,285,779	1,393,970

The most important divisions of the new Ministry of Industry are:-

1) The Industrial Survey and Promotion Services which has a vote of K.£.10 in the 1980/81 budget year; and

2) Kenya Industrial Research and Development Institute which has been allocated K.£.10, making a total of K.£.20 for this Ministry.

The explanation given for the allocation of only K.£.20 is to make the Parliament aware of the projects proposals, now in the pipeline and whose actual costs have not been determined. It is therefore obvious that the 1981/82 budget for Consultancy expenditures will show a larger figure than K.£.20. Another explanation given is that one should bear in mind that the Ministries of Works and Communications sometimes spend money on behalf of all other Ministries and it is true that some money of the Ministry of Commerce and Industry could have appeared under the now split Ministry of Works and Communications.

Both the Industrial Survey and Promotion Centre and Kenya Industrial Research and Development Institute are geared to attract and to assist foreign investors and Industries in the so called "formal sector". "Kenya welcomes prospective local and foreign entrepreneurs to invest in the country and be our partners in progress. Kenya has a liberal and progressive economic policy in which private initiative is encouraged to save and invest and help in the nation building activities". 6/

"The Industrial Survey and Promotion Centre is the Government's Agency to initiate, prepare and promote projects in the country. The prospective investors are advised to contact the Centre for advise or assistance in establishing projects. The finance institutions also render assistance in these respects". 7/

In the Development Plan 1979-1983, the functions of the Industrial Survey and Promotion Centre are clearly defined as follows:-

"The Government will develop the Industrial Survey and Promotion Centre in the Ministry of Commerce and Industry into the principal instrument for providing Consultancy Services in the industrial development. The size and composition of the staff of the Centre will, therefore, be expanded to provide an adequate range of technical, economic, and finance skills for the complex functions assigned to the Centre. The Centre will undertake the following tasks during this Plan period:

i) Continuous study and analysis of the manufacturing sectors in order to identify new investment opportunities and prepare programmes to assist in planning the development of the sector;

ii) Regional studies to help plan for greater geographical distribution of industries;

iii) Identifications of areas for industrial research and subsequent commercialisation of research results;

6/ Industrial Survey and Promotion Centre: Guidelines for Investors in Kenya (Nairobi: August 1979), p.2.

7/ Ibid. p.16.

iv) Preparation of pre-feasibility and feasibility studies;

v) Evaluation of projects to ensure that technology will be appropriate to local conditions and fair prices are paid for technical expertise, machinery and equipment. This will contribute to strengthening the capability of the Government in negotiating joint ventures;

vi) Financial and economic evaluation of project proposals to ensure that the projects approved for development have economic benefits to the country;

vii) Promotion of projects prepared by the Centre;

viii) Assisting industrialists in the establishment of approved projects;

ix) Liaison with local and international research institutions, in particular the National Council of Science and Technology, in identification, development and adaptation of appropriate industrial technologies;

x) Assisting the Government in evolving the industrial development strategy and policies; and

xi) Establishment of a national repository for industrial and technological information.

Apart from the aforementioned roles, the ISPC will, during the Plan period, carry out survey of Industrial Investment opportunities with the prime objective of utilising local natural resources and substituting for imported materials. In addition, the Centre will identify growth sectors in the world market and examine how Kenya can share in the world industrial development. From these studies ISPC will develop a data bank of project ideas which will be made available to prospective investors for further development.

As the Industrial Survey and Promotion Centre further develops its capacity to undertake pre-investment studies, it will be possible for the Government to reduce the cost of pre-investment studies and to influence the formulation of projects to meet national objectives. The Government has therefore made a provision of K.£.360,000 to support field investments including collection and testing of samples of raw materials, arranging for their laboratory analysis and where appropriate supporting pilot operations. This amount will supplement the aid provided by the United Nations Development Programme to support industrial development activities". 8/ About the research institute, the Development Plan 1979-1983 states:-

"The Kenya Industrial Research and Development Institute (KIRDI) which was established in 1978 to take over the functions of the East African Industrial Organisation will be strengthened according to the current Development Plan, to enable it possess capabilities of conducting applied industrial research and commercialise the research results. The Institute will undertake research relating to designs, development adaptation of machinery, tools and equipment. It will

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8/ Republic of Kenya: Development Plan 1979-83; Pages 346-347.

also carry out research in the appropriate processes and technologies in the priority industries. In conjunction with the University of Nairobi, the Industrial Survey and Promotion Centre and the National Council of Science and Technology, the Institute will provide advices to industrial enterprises in the country. The Government has provided for K.£.9,950,000 in the development expenditures to KIRDI". 9/

From the above statements, no emphasis has been so far laid on the promotion of very small indigenous industrial enterprises.

CHAPTER 5

CONCLUSION AND RECOMMENDATIONS

5.1 INDIGENOUS PRIVATE ENTERPRISES

Irrespective of financial, management, marketing and other problems faced by indigenous private enterprises, African entrepreneurs have not used their capabilities to the very maximum. There are many areas of improvement which indigenous can successfully handle without incurring extra cost. Infact attempts to increase improvement in some fields which are within their capabilities may mean saving and re-investment of money which are important aspects of industrialization and subsequent economic growth. Among the suggested recommendations for increased capabilities or performance include:

(a) Luxury life, prestigeous cars, power and show-off attitude of most African entrepreneurs have been obstacles for their growth and should be abandoned. A very high industrial discipline is a must if indigenous are to catch up with foreigners.

(b) The idea of getting rich quick is the father and mother of smuggling and other social evils. It also influences speculation and inflationary trend of real estates and other goods which are in short supply. For the sake ofour nation, Africans should be prepared to hold their money or capital in machinery and equipments for a long time.

(c) While the quality of some goods manufactured by indigenous is reasonably high, continuous improvement is needed to raise the standard of local products. Deliberate misuse of protection concessions given to indigenous by the government by increasing prices to make exorbitant profits should be stopped. What is worse is that the profit which is made from these high prices of local products are not saved and ploughed back to the industry but are transferred prematurely to other uses such as buying of land or golf clubs. Sometimes the profit can be used to start another business but early diversification when the first industrial project is still young is as bad as misuse of funds.

9/ Ibid, Pages 350-351

(d) It is not a secret that Africans are new in industry and have no experience even if they have held senior government posts. Indigenous should therefore take business and management training seriously by attending courses, seminars and by listening to opinions of other people even if these people are their juniors. It does not help anybody to try to cover up one's ignorance.

(e) Some handicraft-shops are too small to expand. Indigenous people owing small similar industrial establishments should agree to merge together to form viable industrial enterprises. As a result of the mergers, costs of raw materials and other supplies will be reduced because of bulk purchases. Overhead costs, advertising costs and other expenses will also be reduced. Alternatively, separate procuring companies could be formed to import raw materials used in various small and medium industries. Shareholders of companies of these type should be industries consuming the imported materials.

(f) The degree of conscientiousness in the general performance of indigenous is very low. The quality of workmanship, the delivery date and punctuality are not a bother. In order to improve their performance, indigenous entrepreneurs should set up their own standards to effect personal motivation. They should be self-asserting and have confidence in themselves. They can develop these characteristics through the counselling provided by the Small and Medium Industry Promotion Council.

5.2 PROBLEMS OF VERY SMALL INDIGENOUS INDUSTRIAL ENTERPRISES

The 1979 Statistical Abstract compiled by the Central Bureau of Statistics states that "Establishments include limited liability companies as well as other forms of business organisations. Public bodies of an enterprise nature engaged in business activity are also included. The agricultural establishments shown are only those located in the former scheduled areas and exclude the very large number of small holdings outside these areas. Other very small non-agricultural rural establishments are also excluded. The coverage is in fact limited to the "modern" sector, defined to include all establishments in urban areas, large scale farms and other "modern" enterprises located in rural areas plus that part of the public sector which is engaged in activities of an "enterprise" nature". 10/

This does not tell us exactly what very small non-agricultural enterprise is. It could be a cottage industrial establishment, a home-workshop or a licensed small furniture workshop. It will therefore suffice to assume that very small indigenous small scale industrial enterprises are those not covered by the Kenya Industrial Estates (K.I.E.) and are commonly found in what is called the "informal sector".

10/ Republic of Kenya: Statistical Abstract 1979 (Nairobi: Central Bureau of Statistics, Ministry of Finance and Planning 1979), P.92.

According to the International Labour Organisation report on Employment, Incomes and Equality in Kenya, activities in the informal sector are characterised by:-

a) ease of entry;

b) reliance on indigenous resources;

c) family ownership of enterprises;

d) small scale of operations;

e) labour intensive and adopted technology;

f) skills acquired outside the formal school system; and

g) unregulated and competitive markets.

The characteristics of formal sector activities according to the same report are:-

a) difficult entry;

b) frequent reliance on overseas resources;

c) corporate ownership;

d) large scale of operation;

e) capital - intensive and often imported technology;

f) formally acquired skills, often expatriates; and

g) protected markets (through tariffs, quotas and trade licences). 11/

Based on the above characteristics of formal and informal sectors, it is obvious that I did not cover informal sector in the previous sections of this report.

Early this year His Excellency the President of Kenya Hon. Daniel arap Moi directed all District Commissioners to register artisans in their respective districts to enable the Government locate them for the award of building contracts etc. whenever such opportunities occur. In support of that directive, I wrote letters to the popular newspapers/magazines in this country which show what is initially required in assisting small scale indigenous industrialists.

In an editorial comment of The Standard Newspapers dated 30th September, 1980 some of the problems facing indigenous small scale industrial entrepreneurs and the possible solutions have been clearly expressed (see appendix for both articles).

Additionally, the ILO report has discussed exhaustively the importance of informal sector in creating employment to the extent of viewing this sector as a complementary to planned development objectives and the authors of the report regret that Kenya Government does not recognise this fact and if anything, the informal sector is being suppressed instead of being supported. In its Development Plan for the year 1979-1983, the Government states as follows with regard to the informal sector:

"The informal production units in the manufacturing sector will be assisted during the Plan period to enable them to become more productive and to

11/ International Labour Office: Employment: Incomes and Equality. A strategy for increasing productive employment in Kenya (Geneva: ILO, 1972), p.6.

absorb more employees. A new programme will be co-ordinated by a unit to be established for this purpose in the Ministry of Commerce and Industry.

It will be implemented through special sub-committees of the District Development Committees. The Government will encourage private extension agencies such as National Christian Council of Kenya, Young Men's Christian Association, Partnership for Productivity, Action in Distress, Village Polytechnics, etc. to play their rightful role in assisting small industrial units throughout the country. These agencies will be actively involved in the planning and implementation of assistance programmes for the informal sector. They will interact with the District Development Committees and supplement the extension service facilities provided through the KIE programme. A sum of K. £.2.5 million is set aside for this programme during the Plan Period". 12/

The objectives of these charitable foreign organisations are not to promote or encourage the growth of entrepreneurship as such but to help up-lift the welfare of the community at large as explained herebelow:-

(i) ACTION IN DISTRESS

A British charitable organisation whose aims are to assist primary school leavers to find ways and means of becoming self-employed through training and job-creating programmes in the rural areas. Its programmes are for the poor and its focal point is community development.

(ii) URBAN COMMUNITY IMPROVEMENT PROJECT (U.C.I.P.)

This scheme is sponsored by the National Christian Council of Kenya (N.C.C.K.) and its main objectives are to help urban poor become economically independent by providing training and to establish income generating projects owned and managed or run by various groups or co-operatives.

(iii) PARTNERSHIP FOR PRODUCTIVITY (PFP) KENYA

A brain child of associate of the East African Yearly Meeting of Friends (EAYMF) in conjunction with Friends in the other parts of the world, aims to promoting the qualities, practice, growth and appreciation of responsible entrepreneurship in Kenya. Its operations are currently concentrated in West Kenya.

While I have nothing against these organisations, I am correct in suggesting that their activities have either religious or idiological motives associated with the development of indigenous industrial entrepreneurs.

12/ Development Plan 1979 - 1983; Page 350.

It can therefore be assumed that the indigenous industrial entrepreneurs whose motive is purely profit making and economic prosperity, cannot, structurally, fit in properly in these organisations' set up. The Government will be wrong therefore to rely on these bodies as sole agents of developing indigenous small scale industrial entrepreneurs.

It should be noted that the informal sector is not the traditional handicraft. It is a modern sector and its differences with the so called formal sector are mainly structural organisation and the markets to which each one is addressed. In the urban areas for example, cooking is done by the use of:

a) electricity

b) gas

c) paraffin stoves; and

d) charcoal stoves (Thagiri)

In most African homes where electricity or gas are main cooking systems, charcoal stoves are kept and used for the roasting of meat. Other areas of interations between the formal and informal sectors are found in the manufacture of furniture, doors and windows of all kinds and several domestic utensils and tailoring. Goods of high quality are commonly for higher income groups - but are not necessarily manufactured by the formal sector.

The most important aspect of the informal sector is its ability to adapt technology in the production of goods demanded by all income groups and Kenyans who do not believe that "foreign" is always better. Improved capabilities of this sector is in fact a threat to foreign dominated formal sector and hence the cause of regular harassment, discouragement and other forms of maltreatment. This type of Government's negative attitude is self-contradictory and self-defeating and must be changed before it is too late.

PROBLEMS

Having made the above general comments, I now wish to turn to the actual problems faced by indigenous small scale industrial entrepreneurs which include:-

(1) LACK OF DIRECTIVENESS

An entrepreneur using scrap metals and other second-hand materials to manufacture low cost products such as basins, stoves, doors, furniture, locks etc. which compete favourably with metal and plastic products manufactured in established companies in the formal sector is considered almost an enemy of Kenya's economy. He is not wanted and does not get assistance or guidance in his efforts to modernise his industry, get raw materials, a building or plot or even market to sell what he makes. In fact some of his products are bought cheaply by established merchants and resold at very high prices after putting on them popular trade marks such as "made in England" in case of dresses because of their very high quality.

(ii) PREMISES

To get godown or other building where he can carry out his industrial activities is very difficult particularly in the urban area. Because he cannot afford to get money to pay rent, sometimes for three to 12 months in advance, he simply starts his industry in an open air space hoping that the authority will not catch him before he makes a few shillings. If he has no building to establish his industry, he will not be registered by the Registrar of Businesses and he will not get a licence. Without a Certificate of Registration from the Registrar of Businesses, he cannot open a bank account leave alone qualify for any loan.

(iii) TOOLS

A graduate from a Polytechnic will have to work for sometime to raise money to buy tools. In case of mechanics, he will initially buy one or two spanners to open wheel nuts but not the engine of the automobile even if he has the know how. The completion of the vehicle under repair will therefore depend on the entrepreneur's ability to borrow missing tools from different mechanics or garages.

(iv) RAW MATERIALS

Every customer must deposit at least 75% of the cost of raw materials required to make the product he wants. e.g. furniture, or clothes. If the customer is not prepared todeposit such money in advance, no work will be done because the entrepreneur has no working capital to buy the raw materials.

(v) CHANGE HANDS

Lack of working capital and the uncertainity of his industry will prevent him from hiring enough or appropriate employees to help him efficiently perform his duties. In most cases, the delivery dates are never met and if met, the job is hurriedly done that it turns up to be a shoddy product.

(vi) MARKET

Markets for goods manufactured by small scale industrialists are confined to small local markets within the vicinity of the factory unless bought and resold at higher profits by middlemen who can afford transport. This is why small industrial establishments are found in every ward or locality. Market growth for commodities of these entrepreneurs depend on increased births in the area concerned and undurability of their products.

In short, the problems of small indigenous industrial entrepreneurs include smallness and simplicity, non-recognition by the authority of their contribution to the economy which makes them suffer discrimination, scorn, and maltreatment from leaders who are supposed to assist them modernise and develop.

A change of attitude and meaningful Government interest in the small scale industrial enterprises is a prerequisite if they are to be assisted, encouraged and given proper guidance needed for their growth. Confidence in them is the only criterion that will make them get tools, premises, raw materials, markets and access to capital through loans to help them operate effectively.

5.3 JOINT VENTURES

The institution which has been involved in joint ventures on behalf of the government is the Industrial and Commercial Development Corporation, commonly known as ICDC. This organization has been mobilizing financial resources and co-ordinating nearly all joint ventures now operating in Kenya. At present, the ICDC has approximately Shs.500 million in about 70 Subsidiaries and Associate Companies. In its 16 years of operation since when it was restructured in 1964, the ICDC has assisted many indigenous entrepreneurs establish both commercial and industrial enterprises. With the increasing activities of the Kenya Industrial Estates, the Development Finance Company of Kenya and the Industrial Development Bank, ICDC has been overshadowed in terms of the development of indigenous industrialists. For example, ICDC loan limit stands at Shs.2 million as compared to Shs.5 million of K.I.E. and unlimited amount of both IDB and DFCK. Secondly, the last three institutions have established active advisory and management divisions to assist their customers while ICDC is busy looking for foreign investors to start with them profitable joint ventures. It has therefore, outlived the purpose for which it was originally formed, namely "promotion of African participation in the industrial and commercial development of the republic".13/ I therefore recommend that the structure of ICDC should be re-defined to include the following activities:-

a. Invest jointly with foreign investors only in industrial projects which have multiplier effect or in industries producing tools, chemicals, steel or other industrial inputs.

b. In order to raise capital for the investment in projects mentioned above, ICDC should sell its shares in its subsidiaries and associate companies to indigenous entrepreneurs who will participate in actual management of these companies as opposed to sleeping partners.

c. Guarantee loans issued by commercial banks to indigenous industrialists wishing to enter into joint ventures with foreigners and for that matter co-ordinate such ventures between local entrepreneurs and foreign investors. It should also guarantee loans given by the commercial banks to industrialists; in other word, it should appoint the commercial banks especially those operating in the rural areas as its development loan agents. Joint ventures with indigenous contributing only know-how is that is all they can contribute, should also be started.

d. Establish, with the foreign investors, agricultural farms or commercial farming to increase and guarantee food production, create more employment, motivate and convince Kenya youths that farming is an honourable profession. All ICDC's projects should be based on social benefits and profit earning should be a by-product. Because foreign investors aim at profits and social benefits are by-products, then joint ventures should create a stabilizing effect.

e. Make entry into industry easier by not asking indigenous to produce what is impossible.

13/ ICDC, Role and Activities.

f. Lay down conditions of establishing industries instead of having foreign investors lay down their own conditions. Long term prospects of a new industry should dictate the policy rather than immediate, short benefits.

g. Ensure that no conflicts between the aspiration of people and foreign investment, no matter how much money the foreign investor is prepared to pour in.

h. Ensure and require that foreign investors develop local entrepreneurial cadre or industrial managers by the government standard or measurement but not foreigners' assessment and within a specific time.

i. ICDC and foreign investors should only be involved in strategic industries but not in every profit making enterprises.

j. Invest irrespective of short term loses, in strategic projects such as steel and chemical industries.

k. Buy off and sell to indigenous entrepreneurs foreign industries when investors fail or refuse to comply with government's requirements or fail to meet their commitments for no good reason.

5.4 FOREIGN INVESTORS

The so called foreign investors are normally representatives of shareholders of multinational corporations rather than actual owners of capital invested directly in Kenya or any other foreign countries. The decision to invest in Kenya or not is generally made by the shareholders and the only condition given to their representatives is maximization of profit. Profit is therefore a very important element in any private investment whether local or foreign.

Having accepted that foreign investors must make profit if they are to invest in Kenya, I now turn to the areas which can be improved by them for the benefit of both parties, namely, the foreign investor and the host country. These include:

a. Creating and assisting through training and supplying of tools, indigenous sub-contrators of their industrial components.

b. In addition to saving foreign exchange, creation of employment and increasing GNP, foreign investors should measure their contribution to Kenya by the number of entrepreneurs whom they have developed through training and other forms of guidance.

c. At present, foreign investors identify themselves with those in authority as the people who matters. They have isolated themselves from the majority of Kenya people including their employees. This alliance has been a source of antagonism between African workers and their representatives on one hand, and the expatriates on the other hand. Foreign investors should therefore identify themselves with the Kenya's need as a whole such as creation and retention of employment, genuinely look for external market, and agree to produce goods which can compete in the world markets because they are capable of producing them.

d. Establish research and development division and involve fully indigenous employees to help develop local or appropriate technology.

e. Use qualifications and experience as determinants of senior appointements as opposed to social and political affiliations.

f. Faithfully and honestly advise Kenya on economic areas of comperative advantages.

g. Do not run away from Africans by continuously creating titles of expatriate jobs whenever an African is promoted.

h. Improve workers' conditions by providing Housing even if they charge workers cheaply to recoup their construction and maintenance costs.

i. Utilize levy contribution by releasing employees for courses and seminars.

j. Provide old age benefits such personal insurances, bonus and retirement benefits.

k. Create a sense of trust and confidence between indigenous who see foreign enterprises as instrument of exploitation and some expatriates who see indigenous as tools to be used and exploited.

l. Sell shares to staff through deduction of their salaries or issue shares freely to workers as long service awards.

5.5 CENTRAL GOVERNMENT

The impact of my recommendations, if implemented, will depend on the role of the central government which is the main force in industrial development. At present, the official policy on indigenous private enterprises is to encourage African participation in the industrialization of the economy. Secondly, the Foreign Investments Protection Act clearly states that foreign Nationals will be given certificates to start a project or Industry in Kenya if:-

a. Such project will lead either to an earning or saving of foreign exchange;

b. Such a project will result in gain of technical knowledge to the country;

c. Such a project will result in increase in the economic wealth and employment in the country;

d. Such a project will assist in the diversification of the economy.

These are the social benefits to be achieved by the establishment of a foreign company or a joint investment. It has been argued in this paper that no industry would be started any where if it was not going to employ labour with or without conditions.

Again, foreign exhange may be saved by starting an import substitute industry but drain the currency through royalty and import of raw materials. It is therefore suggested that the following requirements be inco-operated in the Act to accelerate industrialization and the Kenyanization of the industrial sector:

a. Inclusion of indigenous investors in all foreign investments;

b. Establishment of projects which have higher multiplier effects;

c. Establishment of industries which will service or provide intermediate inputs to locally owned enterprises;

d. Require that payment for management services be paid from the profit earned but not otherwise;

e. Demand gradual sales of shares to participating indigenous entrepreneurs or employees;

f. Require establishment of a Research division in all large companies operating or intending to start in Kenya, or contribute money to the Industrial Research and Development Institute;

g. Device mechanism, within New Project Committee of the Ministry of Industry, to control choices and uses of technology to ensure that whatever technology is introduced in Kenya is appropriate;

h. Encourage overseas training where fears of replacing expatriates does not arise. This will reduce frustrations of understudies;

i. Buy technology or operate through licensing instead of direct foreign investment. This will prevent some multinational companies to bring industries in Kenya in order to avoid tariff barriers.

With regards to indigenous private enterprises, more government involvement is required than ever before. It has been expressed in this paper that money alone, or availability of loan does not mean automatic success in industrial ventures. Other elements are therefore required to complete the proper combination and these elements will be provided by the Small and Medium Industry Promotion Council whose establishment is hereby recommended. It is recommended that membership of this Council be drawn from:-

1.	Small and Medium industries	5
2.	Industrial Training Centre	1
3.	Industrial Research Institute	1
4.	Ministry of Industry	1
5.	Ministry of Economic Planning	1
6.	University of Nairobi	1

7. The Secretary should be a person of wide industrial experience among other qualifications.

The immediate functions of the Council will be the recruitment and training of industrial counsellors. In the whole, the Council shall be charged with the responsibilities of assisting small and medium indigenous enterprises/entrepreneurs in:-

1. Adaptation and or adoption of technology through the dispersion of research results.

2. Co-ordinate sub-contracting.

3. Provide all guidance and management advices on areas of production, finance, costing, procurement, marketing, etc.

4. Supply information about suppliers of raw materials, equipments, spares, plants, etc.

5. Advise on industrial law, rules, regulations and assist entrepreneurs to get contact with the right authority who can solve specific problems.

6. Assist entrepreneurs in feasibility studies.

7. Help industrialists locate and define their problems to facilitate quick solution.

8. Plan and co-ordinate courses, seminars and tours based on the needs of the industrialists day to day problems.

9. Liaise with the government and other organisations on behalf of the industrialists on matters of mutual interest.

10. Avail its services through advertisement and booklets to potential entrepreneurs who have no idea of how to enter industrial ventures.

The Council will initiate a scheme of providing indigenous entrepreneurs with practical experience by having them attached to well established companies for specific periods before getting loans to start their own industries. Costs of such training should be met from industrial levy.

Finally, I would like to conclude my paper by emphasizing that unless governments of Africa commit themselves to development, wonderful ideas will continue to fail on deaf ears as they have fallen in the past.

Appendix I

LIST OF FIRMS WHOSE MANAGERS WERE INTERVIEWED

1. Industrial and Commercial Development Corporation,
P. O. Box 45519,
Nairobi

2. Pan African Vegetable Products Ltd.,
P. O. Box 248,
Naivasha.

3. Mugitex Manufacturers Co. Ltd.,
P. O. Box 2244,
Kiambu.

4. Crescent Investments Ltd.,
P. O. Box 18484,
Nairobi.

5. Milk and Cream Products Ltd.,
P. O. Box 59726,
Nairobi.

6. Ngwataniro Enterprises Ltd.,
P. O. Box 4708,
Nairobi.

7. B.A.T. Kenya Limited,
P. O. Box 3000,
Nairobi.

8. Philips Kenya Ltd.,
P. O. Box 30554,
Nairobi.

9. Mercat Limited,
P. O. Box 30096,
Nairobi.

10. Coca-Cola Bottling Co. of Nairobi,
P. O. Box 18034,
Nairobi.

11. Damco Agencies Ltd.,
P. O. Box 42956,
Nairobi

12. Crescent Construction Company Ltd.,
P. O. Box 49094,
Nairobi.

13. Nation Newspapers Limited,
    P. O. Box 49010,
    Nairobi.

14. Office of the Vice-President and
    Ministry of Finance,
    P. O. Box 30007,
    Nairobi.

15. Mutaratara Enterprises Ltd.,
    P. O. Box 42600,
    Nairobi.

16. Madhupaper International,
    P. O. Box 74309,
    Nairobi.

Appendix II

SKILLED - BUT UNEMPLOYED
EXTRACTS FROM STANDARD
TUESDAY 30TH SEPTEMBER 1980

IT IS TIME that a closer examination was made of Kenya's technical and industrial training policy, with specific regard to small-scale industries in both rural and urban areas.

The Government has over the years been laying strong emphasis on the training of artisans and local technicians to man our industrial sector, whether private or institutional. This is not only aimed at fulfilling the declared policy of Kenyanisation by replacing expatriates with locals, but also in manufacturing our own goods to substitute for exports.

To achieve this, technical institutions in the form of polytechnics, institutes of technology and industrial training centres have been set up. Just last weekend, the Permanent Secretary in the Ministry of Higher Education, Mr. J.K. Leting, announced that the Nairobi and Mombasa Polytechnics will be expanded by an infusion of Shs. 64 million to increase the number of students from 4,000 to 6,000.

In addition to this there is the Industrial Training Levy, through which the private sector subsidises the technical training of people who are already on the job. There are also the international agencies, especially those of the United Nations, which, in conjunction with the Government, set up training schemes to help speed up industrialisation. Not to be forgotten is the do-it-yourself training to be found in places like Nairobi's Gikomba Market.

What happens to the youngsters who graduate from all these institutions? Despite Kenya's low level of industrialisation, there are thousands of youths with a variety of skills which are not being tapped. The Government and the private sector cannot absorb all the artisans and technicians that the country has at its disposal.

One way in which the Government has tried to tackle the problem is by the setting up of industrial estates, where people with specific skills are added to set up their own small factories. These have proved to be highly successful and are being expanded to cover more areas of the country.

Still there is an enormous reservoir of talent and skills to tap as the Ministry of Labor will readily testify. These young men are amongst the most frustrated in the country. They have trained hard to attain the necessary knowhow only to come to a dead end.

The plight of Jusuf Onyango was highlighted in our sister paper the Sunday Standard a few weeks back. With little formal education, Onyango is a self-trained artisan who makes buckets, water boilers, watering cans and sufurias, at Likoni Road in Nairobi's Industrial Area. He even employs some people. Yet he cannot meet the orders from highly reputable companies for his goods simply because no one will give him the necessary finances to purchase the raw materials - mainly sheet metal.

One of the major priorities of the Government is rapid rural development in farming and small entrepreneurship. The President, Mr. Daniel arap Moi, a short while back directed the building industry to make use of the artisans who reside in

the locations where they are carrying out their contracts. Why can't the Ministries concerned complement this by locating small industries in the rural areas?

Artisans and technicians will first of all need guidance as to where they should be located. This calls for exhausive surveys by the Government officials concerned. They will then need the necessary funds to establish themselves. Of prime importance is what to manufacture. This must be related to the country's needs, especially now that there is need to conserve as much energy as we can.

In addition to this, the Government should ensure that there is constant advice available to these small industrialists. Our field officers in all fields of national development are often criticised that they are field officers in name only.

The most vital help that the Government could give to these young people would no doubt be in the field of marketing. It is of no use if they made products that will just be piled up in stores.

With proper guidance and financial support, these currently unemployed skilled workers will become useful citizens. They will help utilise the available raw materials, substitute imports, provide employment and even assist in our export drive. If a scheme exist to help them, few have heard of it. Whoever is in charge of it had better speak up.

THE President's directive on the registration of artisans and other skilled wananchi is most welcome and should be supported.

During this exercise, DCs should specify whether the artisan is self-employed or not. If one is self-employed, the record form should state the nature of activity, number of workers engaged, including the proprietor, type of workshop - own house, rented, timber, mud or stone building, and the number and types of tools used.

If this census is properly done, it will help the Government to identify the population of potential entrepreneurs, who can be developed to become the cornerstone of rural industrialisation.