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THE ECONOMICS OF KENYANIZATION*

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THE ECONOMICS OF KENYANIZATION

INTRODUCTION

The Kenya Government following up its April 1967 White Paper on "Kenyanization of the Private Sector" with the Immigration and Trade Licensing Acts of 1967, has decided to give high priority to accelerating the rate of Kenyanization of private commerce and industry. Both the detailed conception and the method of execution of these policies raise important economic issues and have far-reaching consequences for the level of activity and the rate of growth of the Kenya economy. In its statements of policy and also in Ministerial statements to the Press, Government has frequently alluded to these issues. As professional economists working in Kenya we feel that it would be helpful if we offer our comments on the economic choices involved.

Before proceeding to a detailed discussion of the recent measures to accelerate Kenyanization, we set out a few general principles which in our view ought to guide government policy in this field.

a) Achievement of growth targets

The Kenyanization White Paper stated that "This policy will not be allowed to impair the overriding objective of reaching the development targets set out in the Development Plan". In preparing this paper we have paid special attention to this aspect of the government policy. It must be stressed that these targets already take into account other objectives such as the need for accelerated Kenyanization, and are therefore not necessarily the highest attainable targets.

b) Maximising competition among citizens.

While we accept that rapid Kenyanization now and in the coming years may require some restriction on competition between citizens and non-citizens, we see no reason why the Government should not follow a policy of giving maximum opportunity to and encouraging maximum competition among citizens themselves. This implies, among other things, that licensing should not be used to confer monopoly powers and benefits on a select group of citizen traders and businessmen. To the extent that licenses are necessary for statistical purposes, these should be obtainable by citizens without any restriction and with the same ease as radio licenses. The allocation of credit by public institutions should also be governed by competitive principles, and all citizens should have equal opportunities of access to the jobs that are being created for them. This will ensure the most productive allocation of scarce domestic resources.

These remarks need to be qualified to take account of the special problems of Kenyan businessmen of African origin. In order to offset the effects of the many disadvantages suffered by African businessmen in the past, it will be necessary to give them preferential treatment over other citizens for some time to come. We recommend that this assistance should take the positive form of increasing the competitiveness of African businessmen by such means as training, subsidised rents, access to public and private credit on easy terms, and the provision of commercial and industrial extension services, rather than the negative one of exclusion from competition of non-African citizens by licensing or administrative fiat.

c) Minimising corruption, arbitrariness and uncertainty

Many people will be directly and indirectly affected by the new legislation on work permits and trading licences. It is therefore of great importance that these policies should be administered impartially and efficiently. If experience in other countries is any guide, the system of work permits and trade licences is likely to provide new opportunities and strong temptations for a wide variety of corrupt practices. It is important in the interest of efficiency, equity and public morality that possibilities of the abuse of administrative power should be minimised. Some of the steps that might be taken to this end include:-

(i) The detailed articulation of the criteria to be followed in Kenyanising jobs and business in the private sector (some of which are listed below);
(ii) a clear and precise categorisation of jobs for the purposes of determining whether work-permits should be automatically granted, and for what periods;
(iii) the formulation of objective criteria for placing individuals (and businesses) in each such category;
(iv) the widest possible publication of these criteria and categories.

In general the more detailed and specific is the articulation of policy and the more generally known its contents are, the less is the scope for corrupt practices, and for the arbitrary use of administrative power.

We are not competent to make recommendations on the detailed arrangements needed to ensure both justice to the individual and the execution of the policy in the manner and spirit intended by the Government. The important point is that whatever body is charged with the function of hearing appeals should be independent, be of a judicial or quasi-judicial nature in its composition and functioning, should sit in public, and should be prepared to call and to consider expert evidence. Its task would be greatly eased if the primary licensing authorities were obliged to state in writing the grounds on which they declined to issue or renew a licence or work-permit.

d) Periodic evaluation of Kenyanization policies

There should be provision for feedback of information on the success of the system and for the correction of mistakes. A periodic evaluation of Kenyanization policies will increase their efficiency by providing additional flexibility.

Part A: Kenyanization of wage and salaried employment.

For purposes of this paper, we may divide non-citizen manpower into the following four categories:

i. Occupations normally requiring a university degree or its equivalent, held mostly by Europeans;
ii. Skilled occupations requiring completed secondary education, subsequent vocational training and experience, held in roughly equal numbers by Europeans and Asians;
iii. Skilled occupations requiring literacy, some vocational training, motivation and experience and often a certain amount of capital and/or access to credit. Such jobs are held largely by Asians.
iv. Semi-skilled jobs requiring limited experience and training for their adequate performance.

The scope for immediate Kenyanization without loss of potential growth is greatest in category (iv), and to a lesser extent in (iii). These jobs require relatively little education, experience and training for their adequate performance. The economic costs of replacing non-citizens by Kenyans in these categories are likely to be relatively low. On the other hand, the numbers of highly skilled persons required by the growth of the Kenya economy will be substantially in excess of the domestic supply for some years to come. For skill-groups (i) and (ii), the experience of other countries would suggest that demand (given current wage- and salary-rates) will grow at about the same rate as Gross Domestic Product, i.e. at about 7% p.a. (For skill group (iii) the rate of increase is likely to be less, perhaps on the order of 5 or 6% per annum.) This implies an increase of 40% over 5 years in the required stock of the two biggest manpower groups, and a 100% increase over ten years. To these must be added the replacement of natural wastage through death and retirement, amounting to about 11% of the relevant labour force over five years or to 23% over ten years (assuming a natural rate of wastage of 2% p.a.). To the extent that the economy grows at a slower rate, the requirement of skilled manpower will be correspondingly reduced.

These figures suggest that to fill the new jobs that will be created by the process of development and those made vacant by demographic wastage the educational system must produce an output of skilled Kenyans equal to about half the present highly skilled labor force within the next five years, and an output equal to one and a quarter times the present skilled labour force within a decade. It also implies that the stock of educated Kenyans must rise 5½ fold over the next decade. Only if this rate of production is <u>exceeded</u> will <u>accelerated</u> Kenyanization be possible without prejudicing the prospect of reaching the Plan targets for growth. The number of non-citizens to be replaced is still (in 1968) large: the number of Europeans and Asians in the labour force (incl. the self-employed) is probably of the order of 65,000 of whom about 50,000 are likely to be non-citizens.

The orders of magnitude quoted in the previous paragraphs are only crude approximations, and projections of future demand could easily be wrong by as much as 25% either way, even if economic growth proceeds as planned. They also imply that a graduate straight out of University (say) is ready to assume immediately any high level post which is within his ultimate reach. This is clearly not the case, since experience is an important component of effective job performance.

The Ministry of Economic Planning and Development estimated last year that so far as University-level skills were concerned, Kenya would only be able to produce enough manpower to fill growth-needs and natural replacements, leaving nothing over for the accelerated replacement of non-citizens before 1975. These figures did not allow for the fact that a proportion of growth created jobs (top management and technical personnel of new industrial enterprises) is likely to be taken by expatriates at least for a few years, and that a corresponding number of Kenyans should therefore be available for replacement purposes. This is likely to be a small figure, unlikely to exceed 6-700 persons over the decade.

At the lower skill levels the situation will undoubtedly be easier, and the rapid expansion of secondary education should create some of the preconditions for accelerated Kenyanization within the next five years. Here the problems are likely to arise less from the numerical inadequacy of educational output than from the insufficiency of on-and off the-job vocational training and experience.

The purpose of these remarks is not the negative one of pointing out that the Kenya economy will continue to need the services of non-citizens for a good many more years, but to stress the cost of diverting Kenyans from new, growth-created jobs into "replacement jobs" where they can make no <u>net</u> addition to the national product. The diversion of each such Kenyan will on the average mean sacrificing about £K 5,000 worth of potential output*. Perhaps even more significantly, as each high-level person (employer or senior employee) on the average creates jobs for ten others besides himself, each high-level job <u>not</u> filled as a result of diverting a qualified Kenyan to replacement also means about ten additional unskilled or semi-skilled workers being deprived of the chance of earning a wage income.

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*This is derived by dividing the monetary gross domestic product by the number of highly skilled persons in the economy. The implicit assumption made here is that skilled manpower is the operative constraint in the economy, and that its marginal product does not differ significantly from its average product.

It may be objected at this point that the rapid Kenyanization of the Civil Service has not resulted in a reduction of measured output or a reduction of Government employment. This is because the Government budget and number of establishment posts are fixed relatively independently of the efficiency of Government. On the other hand, it is commonly agreed that there will be a problem of "re-Africanization" of the Civil Service to replace less qualified personnel with more qualified ones as their supply increases. In the case of the private sector, where numbers of jobs are determined by market demand for output, and where inefficiency can easily result in high costs and smaller amounts of output being demanded, the result of "premature" Kenyanization will be less output and employment as set out above.

We must stress that our conclusion that the cost of accelerated Kenyanization will be foregone growth rests on the somewhat inadequate and out-of-date manpower information at our disposal. This indicates that those with a C.S.C. or better are still in a seller's market and have no difficulty in finding remunerative employment. We shall certainly have to recalculate when the long-awaited 1967 Manpower Survey information becomes available. It should also be noted that we have but limited faith in manpower forecasts, even for so short a period as five years. The time to accelerate Kenyanization is not so much when the Manpower Survey projects supply beginning to overtake demand, but when the labour market is beginning to show signs that such a state of affairs is approaching.

If the Government causes significant labour statistics to be collected and analysed, the signals for being able to accelerate Kenyanization without sacrificing (much) growth will be

i. that well educated Kenyans are being recruited into jobs for which lower educational qualifications used to be the 'norm';

ii. that for any given educational level of new labour market entrants the average salary offered is falling;

iii. that the time-gap between leaving school and finding paid employment is lengthening;

iv. that there is a marked slow-down in the rate of advancement of skilled personnel compared to the previous year's average;

v. that the turnover rate of junior personnel in both the public and private sectors falls significantly; and, finally,

vi. that unemployment of educated Kenyans is beginning to appear.

When the above indicators are observed, that will be the time to put the pressure on accelerated Kenyanization without the risk of a major slow-down in the rate of growth of output and employment.

Recommendations:

1) That occupations for which expatriates are required be carefully defined in terms as specific as possible.
2) That in all occupations where
   (a) the labor market indicates signs of present shortage (easy job placements, rising salaries, rapid promotion) and
   (b) the Manpower Survey anticipates that this shortage will continue for several more years,

   work permits should be granted automatically to individuals with the requisite qualifications for a period of five years.
3) That these permits be extendable every two years, for up to 5 more years depending upon the degree of shortage projected. This will permit firms and individuals to plan ahead and reduce the inefficiencies inherent in a situation where permits can be renewed only near the expiry date.
4) That the bond for each non-Citizen employee be dispensed with. This payment reduces the private sector's ability and willingness to invest, and results in higher prices, to the detriment of the competitive strength of the Kenya economy which has already suffered as the result of Britain's devaluation.

   The presumed purpose of charging fees for work permits is to meet the expenses of administering the work permit system. If the revenue from fees exceeds these expenses consideration should be given to lowering these fees, especially for low paying jobs.
5) That work permits be issued in respect of <u>individuals</u>, and do not specify which firm the individual will work for. This will help to ensure
   (a) that individual workers with scarce skills go to the firms which need them most, and
   (b) will reduce opportunities for facouritism to particular firms.

6) That when the end of the shortage of a particular skill is in sight the issue of new permits for that occupation be reduced.
7) That the government not fix targets for Kenyanization of personnel on an individual firm basis. Tying firms to precise dates would have the undesirable effect of tying a firm to a particular set of trainees. If some trainees prove unsuitable for the posts for which they are being trained while others leave the firm for some more congenial jobs, the firm will be unable to meet its target without courting commercial disaster.

Training and Utilization of Local Skilled Manpower.

The success of the Kenyanization policies will depend most crucially on the appropriate training and utilization of local skilled manpower. Clearly one of the areas in which a large proportion of the non-citizen population is employed is in skilled occupations in such activities as the building trades, repair services, machine operators etc. These activities are also those most likely to be severely disrupted by the current exodus of non-citizens. While these occupations need considerable skill and judgement, their requirements in respect of formal education are low, ranging between K.P.E. and two to three years of Secondary education. Considering the dramatic transformation which the Army education authorities of a number of countries (notably, within our knowledge, Canada, Britain, and the United States) were able to bring about in the level of such skills starting with functionally illiterate dwellers of slums and backward rural areas, we believe that at least comparable transformations could be brought about in the economic potential of unemployed and underemployed Africans using similar methods. ~~It is essential that such an attempt be made in Kenya. The rapid run-down of the British Armed Forces, at any rate, offers immediate scope for the recruitment of training personnel~~.

Properly organised and conceived training programmes are expensive and often elaborate affairs. In industries where the typical firm is large, the number of firms is small, and /which enjoy a measure of protection from foreign competition (e.g. breweries or the manufacture of cigarettes), a firm can mount an ambitious training programme without having to worry greatly that it will lose sales if it passes on training costs to the consumer, or having to fear that it will lose trained staff to a competitor who did not have to incur similar expenses*. On the other hand, in industries where the number of firms is large, the typical firm is small and competition is keen, few individual firms would dare to incur substantial training cost (even if they have the financial resources for doing so) unless they know that their competitors are doing likewise. In any case, such courses may have a minimum efficient scale which make them too large and costly for any individual firm to contemplate.

We recommend, therefore, that the Government should enter into discussion with the private sector, on an industry-by-industry basis,

(a) to evaluate the success or otherwise of existing training schemes, preferably on a cost-benefit basis, with a view to improving future performance in this field;

(b) to discuss for each industry or skill-group whether training programmes are most appropriately mounted within each firm, within some firms acting as training institutions for the whole industry; within institutions of vocational education in Kenya, in East Africa or abroad;

(c) to agree on appropriate methods of financing such courses which service several firms with a view to incorporating such agreement into appropriate legislation. In general we favour the idea of a training-levy on each firm to be disbursed by an industry wide organisation, but we suspect that in the case of some industries Government assistance is likely to be necessary.

In general, we believe that such programs should be run under the control of each industry, with an appropriately strengthened inspectorate of the Ministry of Education to approve syllabuses and to see to it that appropriate standards are maintained.

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* But it is difficult to conceive of managerial level training which is so specific that other industries will not make use it. A good example is that of the banks, which have spent £200,000 on training 1,300 employees in the last 3 years. Of these, 60% have gone to other sectors of the economy, thus significantly raising the cost to the banks of training their employees.

An equally important but largely neglected subject concerns the utilization and promotion of the already available skilled manpower. Three aspects of this question are worth investigating:

(a) that Kenya citizens, though willingly engaged by firms in junior professional, managerial and executive positions, are not being given the chances to acquire the knowledge, experience and judgement to fit them for promotion to more senior posts, and that firms are "hoarding" capable Kenyans whom they are not putting to good use;

(b) that, although Kenya citizens in junior managerial positions are, in fact, acquiring the skills and aptitudes needed for promotion, they are, nevertheless, consistently being passed over in favour of non-citizens;

(c) that although Kenya citizens are being both hired and promoted, many of them are holding shadow-posts with no real powers and responsibilities.

If these practices do in fact commonly occur, they are a serious barrier to effective Kenyanization of high level posts, and are wasteful of scarce resources. We, therefore, recommend that the government should attempt to ascertain the existence and extent of the prevalence of such practices in the private sector. Some evidence on (a) and (b) can be obtained from (i) a comparison of the status and salary of Kenya citizens employed by commercial and industrial firms covered in both the 1964 and the 1967 manpower surveys, (ii) a study of the quality and volume of training facilities provided by the firms, both locally and overseas. The prevalence of window-dressing (c) could again be ascertained by studying the work-schedules of Kenyan and non-citizen staff and by investigating whether these schedules were changed at the time Kenyans were promoted to the relevant jobs.

Assistance for hardship cases

Many of the non-citizens rendered jobless by Kenyanization policies will belong to low-income groups and will suffer considerable hardships. We recommend that the government should take the initiative in inviting the interested Commonwealth governments, private agencies, firms and individuals to contribute to a fund to assist needy persons with emigration and settlement in their new homes.

Part B: The Africanization of Business

The objectives and policy of Government with respect to Africanization of Business ownership were clearly set forth in the Development Plan 1966-1970. They could generally be characterized as promoting the entry of Africans into business rather than excluding non-Africans from it. The recent adoption of the Trade Licensing Act has added one more tool for carrying out that policy. Since licensing inherently contains greater potential for rapid change than the previous tools of credit and training, it is important that this potential be used effectively and efficiently. Our discussion below sets out the considerations which should be borne in mind if the policy of accelerated Kenyanization of business is to be achieved with a minimum of disruption of the economy and loss of output.

1. As pointed out earlier, while it is desirable in the interests of Kenyanization that citizens be protected to some extent against non-citizens in business, it is also important that domestic producers and consumers not be deprived of the benefits of competition. To that end, we repeat our recommendation that citizens should have unrestricted access to licenses.

2. It is essential that Government formulate and publicise widely its Africanization objectives. In the first instance, it is not necessary to set timetables for the Africanization of ownership of particular firms. But it is important that the amount of Africanization required (measured in terms of percentage of turnover handled, or assets owned, or firms owned by Africans in each industry), and the date by which this amount will be achieved, be specified. Since expectations about the next 25 - 50 years are important in determining the amount and type of investment undertaken today in many industries, the timing of the Africanization objectives must be made clear. The issues raised in the following paragraphs should be considered in formulating Africanization objectives.

3. Industries and businesses differ in the amount and type of skills required for success. In the case of skills which require a technical competence (repair of machinery, barbering, construction) the skills are widely understood as are the methods of training and selecting likely trainees. In the case of skills which consist of an intimate understanding of the

the wants of the customers (such as interior decorating, professional hunting and other tourist industry occupations), training is largely on-the-job and selection of potentially successful trainees and entrepreneurs is less amenable to objective test. In Africanizing any type of business, it is essential that the types of skills required, the methods by which they may be acquired, and the cost of training in terms of money and time for that business be discovered. In order to maximize the amount of Africanization which can be accomplished for a given cost in terms of money and loss of output, we would recommend that emphasis be placed on those sectors where training costs per businessman are lowest, and where the business requirements are best understood.

4. The capital cost of either buying out an existing business or establishing a new one varies tremendously from one sector to another. If the Africanization objective is formulated in terms of number of businesses owned by Africans, a given capital fund will "buy" more Africanization in an industry of small firms than of large firms. Proposals for providing capital to small businessmen are articulated in a later section. At this point, we devote a few lines to large scale business. Since Africans currently lack capital, the establishment of most new large-scale businesses will require non-African, foreign, or Government investment. However, the amount of capital in the hands of Africans should increase more rapidly than the rate of growth of the economy, and in future Africans will wish to partake in the ownership of such firms. Unless provision is made for this at the beginning, it may be very difficult to accomplish later. Basically, three courses of action are open.

a. Government ownership to enhance the share of the public sector in commerce and industry.

b. Government participation in ownership until prospective African shareholders have accumulated the necessary capital and desire to purchase the shares from Government. This strategy is open to several criticisms:

(i) It ties up Government funds which might otherwise have been spent on assisting small business and performing other Government functions. This criticism will be particularly serious if Government's expenditure is seriously constrained by the difficulty of raising taxes or loans.

(ii) In cases where Government participation is not necessary to get the project started, it reduces foreign exchange receipts at the time the initial foreign investment is made. At the same time it also reduces the eventual payments to service the foreign investment. However, insofar as the investment is optimal from the social point of view, the national income gain from the investment will exceed the foreign exchange cost.

(iii) Inevitably, some new projects will make losses. In most cases, it will be possible to reduce or even eliminate these losses through protection and licensing policies. If the Government is a part-owner, the pressures for such protection will be greater, even in cases where such protection is not justifiable on economic grounds.
In sofar as Government wishes to influence the policy of a particular firm, it is often argued that substantial government ownership is necessary. However, a request for one share and one government appointed director will usually prove more than adequate for this purpose. Government wields so many indirect controls over the actions ofevery firm that the directors representing the owners will rarely insist on majority decisions against the official director's views.

c. A third strategy would be to require all new foreign owned enterprises to become public at some specified date in the future, say in 20 to 50 years time and to place specific proportions of their stock on the local market on an agreed timetable (which could be modified in the light of experience). This strategy could be used to ensure that these companies became 100% [illegible] citizen-owned if desired, and would have the great virtue of imposing no drain on Government's scarce development resources.

5. Small Scale Business

If the transfer of business from non-citizens to citizens, as well as the establishment by citizens of new businesses to serve a growing economy, are to be carried out rapidly and [illegible] smoothly, it is essential that Government provide large-scale support in providing capital and training for a considerable period of time. The basic reasons for an absence of Africans in commerce and industry in the past have been their lack of these things.

a. Credit: Credit will be needed to finance the purchase and establishment of new citizen firms, as well as the running of those firms. It is a truism to state that an important part of the education of any businessman consists of his early mistakes. The losses arising from those mistakes are as much a cost of education as the tuition fees paid by an aspiring doctor. In view of this fact, it will be disastrous to assume that a policy of extending credit to all "credit-worthy" applicants will meet the need. It must be recognized from the start that the object of Africanization of business is to create credit-worthy African businessmen where there were few or none before. This process, if the history of the immigrant communities is any guide, will involve substantial 'educational' losses.

The tragedy of past performance in this field is that public and private lending institutions have been so unimaginative in their credit systems. One proposal which has been put forward elsewhere and which we strongly support is the establishment of a "Credit Guarantee Bank". Operated along the lines of the export-import banks of some rich countries, this Bank would guarantee borrowings by approved entrepreneurs from the commercial banks. The loss resulting from defaults would be met by a subsidy from the government. This proposal would increase the flow of credit to African businessmen by transferring the burden of risk-taking from the commercial banks to the government.

b. Formal training: While the art of small business is not amenable to classroom or extension instruction, such instruction can effectively impart knowledge on accounting, stock control, commercial law, retailing practice, the preparation of loan applications, etc. Moreover, the classroom provides an excellent means for disseminating the experiences, successful and unsuccessful, of businessmen facing similar problems. Classes and weekend seminars for businessmen could become as useful to people in the commercial world as fairs and shows are to farmers. We would therefore recommend that the current programmes of business training be expanded, particularly for the smallest businesses.

c. On-the-job training: The importance of learning on the job has been mentioned above. There are serious difficulties in the way of organizing on-the-job training in competitive industries. One technique which could yield positive results, and which we recommend, would be the active encouragement of partnerships for a limited number of years between Africans and the non-citizens whose firms are being taken over. Government would provide a staff of lawyers conversant with the experiences of similar undertakings. The particular terms on the life of the partnership (or limited liability company), the splitting of the returns of the business, and provision for buying out the non-citizen's share would all be negotiated between the interested parties with the advice of the expert staff. Provision could also be made for the payment of fees to Government for services rendered. The advantages of such a gradual change-over policy compared with an abrupt one include:

i. Orderly transition of some vital businesses.
ii. Facilitation of on-the-job training at no expense to Government.
iii. Reduction in the number of business failures due to lack of experience.
iv. Development of credit worthiness of new partners.
v. A smaller demand for credit to finance the change-over.
vi. More equitable treatment of the original non-citizen owner, which is desirable for itself, and from the point of view of encouraging more private and foreign public investment in future.

6. Financing the transfer of business.

There are no specific recommendations on this subject which command broad assent. It is considered useful, however, to set down the main issues. The normal channel of transition from non-Kenyan to Kenyan ownership of business would be by the sale of the firm. But normally a seller has the alternative of refusing any bid for his firm and continuing to operate his business. This will not be the case where a license is not or cannot be issued. The seller must then take the bestprice offered. If there is adequate competition among potential buyers, this price may approximate what it would have been had the seller had the alternative of continuing his business. But such competition seems unlikely, since the number of potential buyers will be quite small. Thus the offered price is likely to be less than its value to the present owner as a going concern.

The broad alternatives would appear to be for Government a) to do nothing: let the price be determined by supply and demand, even though this may involve the seller in a loss of wealth; b) to make more buyers available through appropriate policies for mobilizing and channelling credit for this purpose; c) not to require sale unless a minimum price was offered. This minimum could be based on i) the replacement costs of physical assets and/or ii) the value of the firm as a going concern.

Choice among these alternatives must depend upon equity criteria and value judgements on which we are not qualified to comment.

Linked to these problems are the ones arising from the repatriation of assets of such firms. If a significant proportion of resident, non-citizen businessmen are obliged to sell out, the pressure on the balance of payments (and specifically on the foreign exchange reserves) could assume unmanageable proportions. There is no easy, generally acceptable answer to this problem.

C. Residence requirements for retired persons

One section of the Immigration Act which does not refer to Kenyanization of the economy, but which does have important economic implications, deals with the issue of entry passes for periods of up to five years for non-citizens who do not seek remunerative employment in Kenya. Such persons are required to have an assured income of between £1000 & £1250 per adult per year. Besides disrupting many families and creating hardships to current residents who cannot meet this requirement, this provision--and the five year limit-- will have undesirable economic consequences for no economic or Kenyanization gain.

1. Many retired persons presently reside in Kenya with a comfortable standard of living purchased at much lower incomes. These people demand local products, pay taxes, and employ domestic servants. If they leave, these benefits will be lost.
2. In those cases where these persons draw their incomes from overseas, their leaving will also reduce Kenya's foreign exchange receipts.
3. Typically, these persons own assets in Kenya (houses, shares, cars, household effects, etc.) whose value exceeds by many times their annual incomes. If they are required to leave, they will be obliged to liquidate these assets and to use the proceeds to establish themselves elsewhere. This will be a source of further strain on the balance of payments.
4. Kenya has enormous and virtually unexploited potential as a country to which persons from temperate countries can retire. Such "permanent tourism" could in time

contribute as much to the economy as "transient tourism". By setting the income requirement, a significant part of this potential market is automatically excluded. As well, the five year entry pass does not give a sufficient length of time to make it attractive to people to invest their savings in this country -- either in real property, or in the local stock market or savings institutions.

The major concern of Government in this area is to exclude persons likely to become a burden on the State. It is our view that this objective is adequately met by the requirement of a bond payable on each new class K entry. Current residents in this category should not be required to post such bonds, since it is likely that the value of their assets will more than suffice to pay passages should the necessity arise, but payment out of current income might cause serious hardship.

Finally, special consideration should be given to persons who hold pensions from public and private institutions in East Africa. We would go so far as to suggest that they be permitted to live here automatically.

RECOMMENDATIONS

1) That income requirements for Class K entrants to Kenya be removed.
2) That Class K permits be issued for life, if desired by the applicant.
3) That holders of East African pensions be permitted to live in Kenya.

SUMMARY OF CONCLUSIONS & RECOMMENDATIONS

1. If Kenya's economy develops as planned, the employment opportunities created by economic growth will fully absorb the highly skilled citizen manpower that the educational sustem is likely to produce. This alone will lead to a rapid natural Kenyanization of the private sector of the economy.
2. In these circumstances, the accelerated Kenyanization of the highly skilled jobs in the private sector beyond this rate may diminish the rate of growth of both output and employment. This argument holds to a lesser extent for all semi-skilled and certain skilled manual & clerical occupations, where the supply of qualified citizens may well grow faster than the probable rate of growth of employment opportunities.
3. The granting of work-permits should be seen in this context; they should be refused only when this is necessary to protect the employment opportunities of suitably qualified citizens.
4. The granting or refusal of work permits, and the periods for which they are granted, should be based on clear, well-publicised criteria, formulated in the light of up-to-date information on the supply and demand for various categories of skills
5. Work-permits should be specific to an occupation and to an individual, but not to the firm in which that individual practices his occupation.
6. The bond now required to be posted by employer in respect of their non-citizen employees has many harmful and few useful effects: it may be wiser to abolish it.
7. Kenya citizens should not be required to apply for trade licences; if licensing is considered necessary for statistical purposes, licences should be available automatically, in the same way as radio-licences.
8. Citizens of African origin will require preferential treatment in matters such as credit facilities, training, subsidised shopping centres etc.
9. It is desirable to undertake an urgent review of the present and prospective scope and effectiveness of training programmes and facilities in the private sector. Discussions should be held with appropriate bodies of employers and Trade Unions, to determine the best ways of mounting, locating, financing and controlling such programmes.

10. The systematic training and promotion of Kenya citizens is quite as important as the mere fact of their being employed. Information on the use and rate of development of local skills should be collected on a regular, continous basis.
11. A fund should be raised from the pooled contributions of the interested Commenwealth governments, private agencies, firms and individuals to assist needy persons with emigration and settlement in their new homes.
12. Africanization objectives for business ~~objectives~~ ownership by sector of the economy must be decided and widely publicized so that investment for growth is not disrupted.
13. Considerations which should influence the choosing of such **objectives** include:
    a. The technical complexity of the trade.
    b. Special skills and attributes of Kenyans and non-Kenyans in dealing with particular trades.
    c. Availability of qualified Kenyans with access to adequate resources.
    d. The importance of personal connections and relationshi in the trade.
    e. The size of investment required in the trade.
14. Government should provide for local ownership of large enterprises through requiring that they go public in Kenya at a specified date in the future rather than using scarce funds to participate in the equity at the time of establishment.
15. Besides expanding present sources of credit to businessmen, the Government should set up, or facilitate the establishment of, a Credit Guarantee Bank to assist new **businessmen**.
16. Business training and extension services should be expanded, particularly those serving the smallest businesse
17. Fixed period partnership or joint-stock arrangements should be encouraged between old and new businessmen.
18. Retired persons should be issued permits for life, and income requirements should be removed.