

u PUBLIC ENTERPRISES AND NATIONAL DEVELOPMENT:  
THE CASE OF THE KENYA RAILWAYS CORPORATION 4

BY  
JANE WAMBUI KARURI ✓

THIS THESIS HAS BEEN ACCEPTED FOR  
THE DEGREE OF... MA (1990) ...  
AND A COPY MAY BE PLACED IN THE  
UNIVERSITY LIBRARY.

A THESIS SUBMITTED IN PARTIAL FULFILMENT OF THE  
DEGREE OF MASTER OF ARTS IN THE UNIVERSITY OF NAIROBI

DEPARTMENT OF GOVERNMENT

1990



DECLARATION


THIS THESIS IS MY ORIGINAL WORK AND HAS NOT BEEN PRESENTED FOR A DEGREE IN ANY OTHER UNIVERSITY.

Signed.....

M/S J.W. KARURI (Mrs)

THIS THESIS HAS BEEN SUBMITTED FOR EXAMINATION WITH MY APPROVAL AS UNIVERSITY SUPERVISOR.

Signed.....

  
Dr. Nick Gatheru Wanjohi  
SENIOR LECTURER  
DEPARTMENT OF GOVERNMENT

To my husband for love and laughter and to our children  
Ciiru and Muchiri for love and patience.

### ACKNOWLEDGMENT

Without the help of several people and public bodies, this study might not have come to a successful end. First, I wish to thank the Director, Kenyatta National Hospital for granting me a 2 year study leave. Next, I am indebted to the University of Nairobi for providing a partial scholarship and funds for this study.

Special thanks go to Dr. Gatheru Wanjohi for painstakingly and enthusiastically supervising and encouraging me throughout the study. His comments and discussions helped to mould the body of this thesis. His <sup>deep</sup> ~~penetrating~~ and illuminating comments on the respective drafts gave me great insights while his profound knowledge on the subject matter immensely aided me in the refinement of my data. I especially thank him for his constructive criticisms and discussions on the subject.

My greatest debt is to the management of the Kenya Railways Corporation especially the numerous senior officers who answered my questions as best as they could. Their courtesy and willingness to provide information has left me with many enjoyable memories of this organization.

I also extend my deep gratitude to family members, relatives and friends for their cordial cooperation in various forms. In particular, my thanks go to my brother in-law, Fred Waweru, for his humour and continued interest to discuss my research with me.

I must also accord my husband, Robinson Karuri special regards for providing the necessary love and moral support when I felt like giving up and our children, Ciiiru and Muchiri for their patience, understanding and tolerance.

Despite the various efforts of the above named and many others, any errors in this work are my sole responsibility.

## TABLE OF CONTENTS

	<u>Page</u>
DECLARATION	ii
DEDICATION	iii
ACKNOWLEDGMENT	iv
ABSTRACT	viii
<u>CHAPTER 1. INTRODUCTION</u>	
Problem Statement	1
Objectives	9
Justification	10
Literature Review	12
Theoretical Framework	22
Hypotheses	27
Methodology	27
Footnotes	32
<u>CHAPTER 2. PUBLIC ENTERPRISES IN KENYA</u>	
Public enterprises during the colonial period	38
The Independence period	48
The performance of public enterprises in Kenya	63
Conclusion	68
Footnotes	72

✓ CHAPTER 3. THE RAILWAYS IN KENYA'S ECONOMY

Introduction	74
The railways and Kenya's economy	78
The railways and urbanisation	89
The railways and agriculture	97
The railways and industrialization	105
Conclusion	114
Footnotes	115

CHAPTER 4. THE RAILWAYS IN KENYA'S SOCIAL DEVELOPMENT

Introduction	119
4 The railways and Communication	120
Conclusion	129
Footnotes	130

CHAPTER 5. THE RAILWAYS IN A FUNCTIONAL DILEMMA

Introduction	131
Resource utilization and performance	133
✓ Public enterprises in the infrastructural sector	148
Conclusion	158
Footnotes	161

CHAPTER 6. CONCLUSION

Summary	163
Policy alternatives	168
Recommendations for future research	17.1

LIST OF TABLES

	<u>Page</u>
2:1	Functional classification of public enterprises..... 54
2:2	Classification of public enterprises according to types of management..... 62
3:1	Agricultural, construction and mining commodities transported by rail..... 84
3:2	Reported employment in Nairobi and Kenya as a whole (1963)..... 93
3:4	Principle commodities transported by rail..... 101
3:4	Traffic carried 1976 - 1985..... 102
4:1	Passengers and freight traffic ferried by rail between given dates..... 121
4:1	Total number of passengers and freight traffic handled by rail and air between given dates..... 123
4:3	Passengers, imports and exports handled at Mombasa Port between given dates..... 124
4:4	Road accidents and train passengers 1950-1958.. 127
5:1	Returns and expenditure 1925-1985..... 134
5:2	Public debt 1978-1986..... 139
5.3	Classification of public enterprises by market conditions..... 149

## ABSTRACT

This thesis seeks to address the question of the factors that account for the persistence of public enterprises inspite of continued reports on their financial mismanagement and shortfalls in overall performance. In doing this, our main objective is to shed more light on the socio-economic and political roles played by public enterprises to an extent that they have become empirically indispensable in a country such as Kenya.

Our main source of data is documentary. Primary data are also collected through formal and informal discussions using an interview schedule with selected people who have indepth knowledge of the organization. Non-probability purposive selective sampling is used to select these knowledgeable people.

Using the Kenya Railways as our case study, our findings show that state participation is geared to the provision of a basis for a rapid socio-economic development of the country through the efforts of the private sector. The provision of cheap means of transport by the Kenya Railways ensures higher profits for the private entrepreneur who would in turn reinvest in production for greater overall growth. At the same time, goods produced by the private sector are bound to be cheaper as a result, thus contributing to the general



welfare. Apart from fulfilling such social objectives, the cheap passenger train services are also meant to facilitate mobility of low cost labour, again in support of privately based production which is a major component in national growth. This is another reason why the Kenya Railways makes losses, largely because it is urged to maintain low rail tariffs.

Then, there are the managerial problems. The corporation maintains a large work-force which is not really necessary. However, the existence of this large work-force is in accordance with government policy which requires the public enterprises to create employment opportunities thereby providing family incomes for as many people as possible. Moreover, the corporation subsidizes the public sector heavily, to a point where, for example, government ministries and parastatals by December 1989 owed the Railways 99.9 million.

In light of all this, we have concluded that the government expects Kenya Railways to satisfy the contradictory demands of providing non-commercial services to meet special social-economic obligations and at the same time to operate commercially. It is abundantly clear that through low cost transportation, the Kenya Railways is in effect subsidizing the farmers, industrialists and food consumers, thus eating on

whatever revenue it is able to collect and leave a big loss. Of course the beneficiaries in turn pay taxes to the government. The revenue generated from taxation is in turn extended to the railways in form of government grant to keep the corporation afloat. However, this is never enough to offset the recurrent loss by the corporation.

We have therefore recommended that available facilities, especially in the central workshops, be fully utilised to enable the Railways generate more income. Also, since the establishment of various bodies such as the Inspectorate of Statutory Bodies, the Auditor General Corporations and various Probe Committees have not brought any significant changes to make the Kenya Railways a viable commercial enterprise, the nature of socio-political and economic benefits accruing to the private entrepreneur and the ordinary citizen should be used to evaluate the performance of this organization. Concentrating solely on the financial gains made by public enterprises does not portray the full picture of the significant role they play in development. Despite the fact that it has perpetually incurred losses, the Kenya Railways has been one of the most strategic public enterprises in Kenya's development without which growth, especially in agriculture, would have been difficult to realise.

We have recommended that new technologies such as electric trains be introduced in order to improve customer taste for railway transportation. Moreover, recruitment and appointment of railway employees should be on merit, while greater management initiatives should also be encouraged.

## CHAPTER 1

### INTRODUCTION

#### PROBLEM STATEMENT

The Kenyan Government has accepted public enterprises as an important feature of the country's political economy. It views public enterprises as important instruments of spearheading national development and has to a large extent delegated to them the responsibility of transforming and managing the public economic sector.<sup>1</sup> By 1982 there were 147 Statutory Boards formed by the Government under specific Acts of Parliament, 36 companies in which the state had controlling shareholding (more than 51%), 47 companies owned by the Government directly and 93 companies in which the state or its various Statutory Boards had a minority shareholding. In total, the Government had interests directly or through Statutory Boards in 176 companies in 1982.<sup>2</sup>

Apart from seeing these enterprises as instruments of increasing indigenous participation in Commerce and Industry thereby enhancing economic and political stability, the government also sees them as important

instruments which will build an integrated national economy and stimulate a balanced regional development throughout the country.

The Kenya Government therefore attaches a lot of importance on the management and performance of these enterprises. Public enterprises in Kenya have however often been subjects of concern for the government and parliamentarians, especially in matters pertaining to financial mismanagement and overall performance, which has often been found wanting. The emphasis has however tended to be focused on only the negative aspects of these public enterprises. It has often been argued that Kenyan public enterprises are exceedingly greedy converters of resources and are the biggest single cause of the governments' budget deficit.<sup>3</sup> Indeed one of the principal recommendations of the working party on government expenditure was that the government should disinvest some of the parastatals. The party noted that industrial activities by parastatals had been carried too far and were inhibiting rather than promoting development. Moreover, cumulative investment by the government in parastatals and other enterprises in which the state had interests had by 1982 exceeded K&shy;900 million and at a rate of return of 10%, the government should have been realising K&shy;90 million per year in dividends. Instead, dividends paid to the exchequer only amounted to K&shy;2.2 million. It was after all suggested that there were

too many parastatals and these had imposed an administrative burden on the state.<sup>4</sup>

Others have even suggested that a major factor contributing to poor performance and mismanagement in state corporations is that existing institutions whose responsibility is to champion public accountability have not been very effective in controlling these enterprises.<sup>5</sup> At the end of August 1989, the President even announced that the Government would appoint judicial commissions to probe alleged corruption and mismanagement in state corporations. Henceforth, managers responsible for the mess in the corporations would not only be replaced but also prosecuted for their misdeeds.<sup>6</sup>

As can be seen, the general view is that Kenyan public enterprises have yielded a very low rate of return on the large amount of resources invested in them to the extent that even the government itself is openly voicing concern. In June 1983, the government even appointed a task force on divestiture whose terms of reference included advising the government on which of the parastatals to sell.<sup>7</sup> The committee was however dissolved after two years of operating without any indication as to which of the parastatals to be sold or absorbed by the parent ministries.

In spite of the many negative findings, recommendations and suggestions of probe committees, commissions of enquiry, task forces and comments by public figures, the government has continued to form new public enterprises, to subsidise those running at a loss and to reopen and rehabilitate those already closed down. Reasons as to why the government attaches this sort of importance to public enterprises seems to have shied comprehensive analysis.

The problems cited above are however, not confined to Kenyan public enterprises. Nellis, for example, while examining the case of public enterprises in sub-Saharan Africa contends that public enterprises in this region which comprises 40 countries are important borrowers both domestically and internationally. Public enterprise external debt is a significant factor in the growing foreign debt of these sub-Saharan African countries. Nellis further asserts that the general view is that African public enterprises have yielded a very low rate of return on the large amount of resources invested in them to the point where even those African governments most philosophically committed to Socialist principles such as Tanzania are now openly voicing concern.<sup>8</sup>

Hari Mohan Marthur while examining the case of public enterprises in the least developed countries of the

Asian and Pacific region asserts that although the governments in this region have become increasingly involved in promoting socio-economic development through public enterprises, their performance has been poor. Except for the financial institutions and some trading companies, most public enterprises have not been able to finance their operations without recourse to bank credits and some of them are chronic borrowers due to chronic financial losses.<sup>9</sup> Similar views on public enterprises have been raised in the Philippines, Jamaica and Pakistan to mention but a few.<sup>10</sup>

From the foregoing our research problem becomes obvious, namely, what factors account for the persistence of public enterprises inspite of all the problems cited above?

In responding to this problematic question, we hope to shed more light on the socio-economic and political role played by public enterprises to an extent that they become empirically indispensable in a country such as Kenya.

The introduction of the State Corporations Act of 1986 in Kenya led to the establishment of an Inspectorate of State Corporations. This is a permanent body whose mandate is to advise the government on all matters



pertaining to the running of parastatals. The department of Auditor of State Corporations and a State Corporation Advisory Committee composed of senior government officials and representatives of the private sector were also established. All this illustrates the importance which the government still attaches to the public enterprises. It is therefore imperative that some of the issues raised above be analysed through a comprehensive study. We therefore intend to dwell on the issue relating to public enterprises and national development and in particular the issues of the contribution these public enterprises are making in the area of national development and their experiences in terms of achievements and constraints.

In order to study this case of public enterprises in Kenya more comprehensively, and given the limited time and resources available, it is necessary that we approach it through a case study of one such enterprise. This will enable us to analyse and give all the details relating to the enterprise and which could be applicable to other public enterprises in Kenya. We therefore suggest that the Kenya Railways Corporation which is arguably one of the country's most important parastatals in terms of assets, services it is supposed to offer and numbers employed be our case study.

The development of a nation depends to a large

extent on the efficiency of its internal communication network. A key part of this network is the railways. Kenya Railways is therefore entrusted with the responsibility of providing an efficient, coordinated and integrated transportation system throughout the country. This includes the rail and inland waterways transport services, and auxiliary road services. The Kenya Railways is therefore supposed to offer solutions for long distance travel of large consignment goods within the country and to those on transit either to or from Uganda and Tanzania. It is therefore seen by the government as an important instrument of spearheading the development of agriculture and industry throughout the country.

Since its inception in 1978 and prior to this when it was still under the colonial administration and later on under that of the East African Community, Kenya Railways has turned in losses year after year with the exception of 1984 when it recorded a surplus. The corporation has been a big drain to public resources as demonstrated by its public indebtedness which grew from Kshs. 526 million to Kshs. 989 million in 1982. Although the government waived a substantial part of this debt to make it Kshs. 533 million, the corporation continued borrowing and by 1984 indebtedness to the government had increased to Kshs. 896 million. This debt increased to Kshs. 1.3 billion in 1987.<sup>11</sup> To the best of my knowledge,

it seems that no comprehensive study has been carried out to establish why this corporation, despite its importance in the country's communication network has continued to operate at such a big loss and why the government has continued to subsidize it.

There have also been several attempts to improve the performance of the corporation whose yields and prospects have not yet been analysed through any study I am presently aware of. The corporation is at the moment undergoing a three year comprehensive restructuring programme known as the Short Term Action Programme (STAP) which will introduce changes into its organizational structure, capital investment and technical assistance. A committee of inquiry appointed by the President to look into the affairs of the corporation following a spate of several train accidents has also finalised its findings whose strengths and weaknesses could be analysed through this study. There was a reshuffle of top management of the corporation in July 1989. All this is a clear indication of the fact that this corporation occupies a uniquely strategic position in Kenya's economic, social and by extension, political infrastructure. By virtue of being entrusted with the responsibility of providing cheap means of travel to both passengers and goods throughout the country, the operations of this corporation affect the entire nation. A study of Kenya Railways would therefore

be instrumental in highlighting the contribution public enterprises make to national development and their experiences in terms of achievements and constraints.

### OBJECTIVES

The study intends,

1. To determine the conditions under which the government has been persistent in the formation, subsidising, and rehabilitation of public enterprises inspite of the continued poor performance of many of them.
2. To examine and analyse the socio-economic and political dynamics which render public enterprises indispensable in developing countries, specifically in Kenya.
3. To come up with proposals and suggestions through which the public enterprises can better play their role in national development in a developing country such as Kenya.
4. To come up with proposals and suggestions of improvement in public enterprises in order to make

them more viable and effective organizations in national development.

#### JUSTIFICATION OF THE STUDY

It has been pointed out that the Kenyan government has accepted public enterprises as an important feature of her political economy. This was even clearly confirmed in 1986 when the government introduced the State Corporation Act through which the state hoped to introduce a more effective system of controlling the public sector. The Act established an Inspectorate of State Corporations, a permanent body whose mandate is to advise the government on all matters pertaining to the running of parastatals and to enforce the provisions of the Act. It is also under this Act that a new office of Auditor of State Corporations was created. A State Corporation Advisory Committee composed of senior government officials and representatives of the private sector whose duty was to advise the President on reorganization of the parastatals was also created. The formation of the various probe committees, task forces and commissions of enquiry to look into the activities and performance of public enterprises further illustrates the importance which the government attaches to these institutions. The government even intends to be appointing Judicial Commissions to probe alleged corruption and mismanagement in state corporations

and managers responsible for the mess in the corporations will not only be replaced but also prosecuted for their misdeeds.

In spite of this recognition and importance which the government attaches to public enterprises there is little literature on the role and contribution of these enterprises to Kenya's development. The activities and contributions of these enterprises have been discussed in a very negative manner and the general view has been that they have yielded a very low rate of return on the large amount of resources invested in them. No explanation however has been given as to why the government has continued to form new public enterprises, to subsidise those running at a loss and to reopen and rehabilitate those already closed down in spite of the continued poor performance of most of the enterprises. It is for this reason that a comprehensive study on public enterprises and their contribution to Kenya's development is now long overdue. Analysis of their activities through empirical investigation would enable us to determine whether these enterprises are actually inhibiting rather than promoting development. If such a study is not carried out, these enterprises could continue repeating past mistakes, performing poorly and consequently being a liability rather than an asset to the government. This study is therefore not only going to contribute to our academic

knowledge on public enterprises, but will also be of great use and will act as a guide to the policy-makers within the government and the public enterprises themselves.

#### LITERATURE REVIEW

The literature on PEs, while being abundant, tends to concentrate on their rationale, origins and performance.

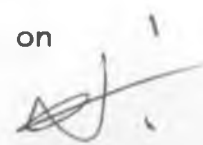
Friedman in Government Enterprise contends that although countries differ widely in many respects such as geographical location, degree of industrial development, philosophy and organization of their governments, they have found it necessary, especially since the end of the second world war, to develop public enterprises which would fulfil some of the many complex tasks of governments in forms other than departmental administration. He asserts that PEs in most cases have been developed as empirical responses to specific needs, without any preconceived theory or uniformity.<sup>12</sup> Similar views on the rationale of PEs are shared by most authors on PEs.<sup>13</sup>

Some authors while examining the origins of PEs in Europe assert that they basically had their roots from the nationalization of private property which occurred after the second world war. The nationalization of industries and banks in countries such as Britain, Austria, France,

Czechoslovakia and Poland was regarded by the working class as a primary means of overthrowing the power of capital after the second world war. This was spearheaded by the communist parties in the respective countries and a major aim of establishing these state owned enterprises was to ensure greater political control which was seen as a means of radically changing the structure of industry and the economy so as to incorporate socialist ideas.<sup>14</sup>

Other authors have argued that defence needs were paramount in the creation of publicly directed atomic commissions characterising one of the few enterprises in the U.S. A mixture of practical and political considerations has on the other hand determined PE establishment in Australia, Israel, India and to some extent the acquisition of state interests in private undertakings in Germany and Italy after the second world war.<sup>15</sup>

While examining the origins and performance of PEs in the least developed countries of Asia and the Pacific region, including Bangladesh, Afghanistan, Nepal, West Samoa, Bhutan Laos and the Maldives, Marthur H.M. asserts that governments in these countries have increasingly become involved in promoting socio-economic development through PEs. This is as a result of their realization that national development cannot be realised by relying on





the private sector alone since it is weak and does not necessarily come forward to invest in sectors which the government accord priority. The performance of PEs in these countries however is below average and this is attributed to poor management, unclear objectives, little forward planning, frequent transfer of managers and lack of professional training for the managers. <sup>16</sup>

Briones further contends that PEs in the Philippines are established for pragmatic reasons such as the need for economic development, enhancement and protection of national interests and not essentially for ideological reasons. The performance of these PEs has however been poor and the government has had to resort to subsidising them. This amounted to P\$ 9 billion in 1982.<sup>17</sup> Vladimir, on the other hand, argues that the Jamaica Railway Corporation which is one of the major PEs in the country has been operating at a loss for the past 20 years. By 1981 the operating loss amounted to J\$ 37 million while the accumulated loss amounted to J\$ 19 million. The corporation is therefore a liability rather than an asset to the government.<sup>18</sup>

While evaluating the performance of PEs in Pakistan, Nawab concludes that there is no uniformity of objectives of PEs in that country and no uniform approach to evaluate their performance. He attributes this to the

multiple objectives which PEs have and which are difficult to quantify.<sup>19</sup>

On the African scene, the debate on the origins and rationale of PEs has been taken by several scholars. Udoji argues that development and state trading corporations were established after independence in order to help solve enormous and urgent problems of development which could not be solved by private enterprises. Public utility corporations were however established by the colonial governments since these were fields which were considered essential for the maintenance of minimum living standards for the civil and military administrators. It was also a means of facilitating the maintenance of law and order in the territories. The expansion of these public utility corporations in the post independence period has been dictated by demands for infrastructure and development. The marketing boards in West Africa especially in Ghana and Nigeria were established after the second world war primarily for the stabilization of producer prices. In East Africa, these marketing boards particularly those established after independence were to eliminate the expatriate middlemen and to ensure that the producer got the best price for his produce.<sup>20</sup>

Other scholars have argued that the basic reasons for PEs in Africa today are those of practicability whereby PEs turn out to be the most important means to

undertake certain public ventures and to gain control over the key economic sectors thought vital for national development and sovereignty. They are seen as important instruments of deconcentration since they are considered to be more efficient than ministry departments. Consequently, throughout independent Africa, PEs of all types have been created to spearhead economic and social transformation of the societies. Governments therefore have a very close relationship with PEs since they account for a fairly large percentage of government investment in economic activities. Factors responsible for state intervention are either social, political or economic and they vary from country to country.<sup>21</sup>

A critic of PEs, Nellis, while examining the case of PEs in sub-saharan Africa contends that each of the 40 countries comprising this region possess a PE sector which are typically concentrated in capital intensive production. The PEs however are important borrowers and PE external debt is a significant factor in the growing foreign debt of sub-saharan African countries.<sup>22</sup> Most authors agree that African PEs have yielded a very low rate of return on the large amount of resources invested in them to the point where even those African governments most philosophically committed to socialist principles such as Tanzania are now openly voicing concern. These authors list several determinants of poor performance which

includes unclear and contradictory objectives, excessive political interference in issues and decisions that should, from an efficiency stand-point, be taken by enterprise managers or boards of directors, frequent rotation of managers, incompatibility of civil service procedures with commercial operations and lack of competition.<sup>23</sup>

Authors agree that PEs in Kenya are diverse in both origins and roles. Although there was in existence an important public sector at the time of independence in Kenya, it was mainly designed to serve the interests of the settler minority. The priority after independence was to reverse this tendency with the aim of integrating the Africans into the capitalist production process. Some authors however argue that state firms in Kenya have often found themselves competing with African firms, thus defeating the very purpose of their existence which is to boost or encourage private profitability. These PEs have actually promoted the commercial and industrial bourgeoisie and this has led to the formation of social classes and interest groups.<sup>24</sup> Other authors further argue that PEs in Kenya mainly depend on foreign financing and management advice. The problems facing these corporations can be analysed from the levels of policy-making and internal management and this is attributed to the existence of much private influence in these enterprises. Those bodies involved in policy-formulation such as the parent ministries and the legislature have

also failed to ensure that the organizational activities are not influenced by personal interests. No explanation however is given by these authors as to the reason why these bodies have failed although it is suggested that there is a need to strengthen the monitoring agencies and of restructuring the basic value orientations in order to make these enterprises more productive. It may however be difficult to measure the productivity of a PE since other benefits apart from financial ones may have been anticipated. Strengthening of the monitoring agencies may also not improve productivity of these PEs since their main purpose is to boost or encourage private profitability.<sup>25</sup>

In a Report of working Party on Government Expenditure in Kenya (1982) it was indicated that PEs providing government services had failed due to increasing demands for services which resulted in the decline of efficiency of operations<sup>26</sup>. Similar views have been raised by most authors on PEs in Kenya.<sup>27</sup>

Most authors on PEs have tended to concentrate on their performance and are in agreement that it is generally poor. This is attributed to lack of competent managerial manpower, corruption and lack of foreign exchange. The performance of PEs may however be difficult

to measure in terms of services since these enterprises perform multiple roles and functions in the economic and social development of the country. As such, though it should be encouraged, profitability is a most imperfect guide to PE performance. This is due to the fact that profits may not measure a PEs capacity to produce social benefits and many markets in Africa are also not competitive.<sup>28</sup>

Some authors contend that PEs can be used as instruments of governmental policies and it is therefore essential for the managers to know what aims, apart from manufacturing the actual products, the government intends to achieve<sup>29</sup>. These PEs especially in the developing countries have been seen to involve the locals in the planning and execution of their projects. They are seen as sources of skill development which could provide the respective government with a vehicle to integrate development in regional areas. These PEs do not exist and operate in a social and political vacuum but they are an integral part of a patron-client political and economic system on which the foundations of governments sometimes depend. They are therefore amendable to reform as far as the wielders of state power are willing. Technocratic solutions by the World Bank have ignored this socio-political context. Application of theories of optimality, however, are not enough on their own and the solution lies in embracing both technocratic and political solutions.<sup>29</sup>

Several authors including Mary Shirley, Neelis, Nov Alec and MCHenry see selling, liquidating or divesting PEs as another way of easing their administrative and financial burden on the state. A number of governments such as Bagladesh, Brazil, Chile, Italy, Jamaica, Pakistan, Peru and the Philipines have divested or are planning to divest. The number and importance of the PEs sold however are not large since divestiture is politically sensitive and prompts charges of corruption. Governments also try to sell during a recession when the market is poor. Liquidation or divestiture would however act as a major source of efficiency since it saves the economy from the burden of non-viable enterprises. Governments are however reluctant to let PEs close due to financial and social consequences. Keeping non-viable enterprises is all the same fiscally draining, administratively demanding and wasteful of potentially productive resources.<sup>30</sup>

From this review of literature, a number of issues have emerged indicating the need for research on PEs and national development. The discussion on PEs has tended to concentrate on their origins, rationale, performance and suggested solutions and does not indicate what role if any these enterprises play in national development. If the performance of these enterprises is as poor as is depicted by these authors, why do governments worldwide continue to retain them and spend a lot of the scarce resources in

subsidising them instead of investing in more viable undertakings?

It has been indicated that PEs are not a new phenomenon and they come into existence through nationalization as happened in Europe after the second world war or in Tanzania and Somalia after they adopted socialism. PEs can also be inherited as happened in most African countries after attaining independence. They can also be established when the state takes over an already existing enterprise either fully or partly by buying majority of controlling shares. A PE can also be started from the scratch in order to satisfy a felt social need. These PEs have been accepted as important features in the political economy of countries worldwide and governments view them as important instruments of spearheading national development. The general view of the authors, however, is that, these PEs have yielded a very low rate of return on the large amount of resources invested in them, to the point where even those governments most philosophically committed to socialist principles are now openly voicing concern. Although some of these authors advocate divestiture or liquidating as a useful way of easing the administrative and financial burden of PEs, they further assert that governments are reluctant to liquidate because it is politically sensitive. It is highly unlikely that this is the only reason that hinders



governments from liquidating or divesting. There must be a deeper cause and reason for this reluctance which has not been brought out clearly by these authors.

Whereas a great deal of stress has been laid on the origins, rationale and performance of these enterprises, their contribution to national development or rather the role they play in this regard has not been adequately depicted. We are left with a picture which depicts these PEs especially in Kenya as exceedingly greedy and inefficient converters of resources which are the biggest cause of the government's budget deficit. The reasons as to why the government has continued to operate non-viable enterprises and even to subsidise them have not been explained comprehensively.

It is therefore the aim of this study to fill this gap in our knowledge on PEs. Data will be assembled to demonstrate why governments have continued to form new PEs and to subsidise those running at a loss inspite of the continued poor performance. The actual causes of this poor performance and the role of these PEs in the development process in Kenya will also be assessed.

### THEORETICAL FRAMEWORK

The literature review has indicated that public

enterprises are not a new phenomenon and that they have been accepted as important features in the political economy of countries worldwide. Governments view these enterprises as important instruments of spearheading national development.

Several approaches advanced by scholars have however failed to provide a solution to the third world's condition of poverty and underdevelopment. The development theorists such as Bill Warren have for example argued that the underdevelopment of the third world is caused by internal conditions within these countries which prevents them from achieving the advances accomplished by the developed countries. They therefore recommend the use of western capital and technology as a means of increasing productivity, income and industrialization and therefore, national development. Although many third world countries have resorted to reliance on this foreign capital and technology, they have continued to be underdeveloped. This theory has therefore not helped the developing countries much in their attempts to achieve development.

The debt crisis and underdevelopment in particular has motivated the dependency theorists such as Walter Rodney, E.A. Brett, S. Amin and G.A. Frank to contend that the problem of underdevelopment in the third world is caused by the unequal relationship between the developed

and the underdeveloped countries. In this respect, the third worlds' continued dependence on the western world since colonialism and their increasing reliance on international capital in the form of aid and investments only benefits the western world and some of the third world comprador bourgeoisie and is the cause of the deepening underdevelopment of third world countries.

However, although some third world countries such as Tanzania have resorted to socialism and have opted for self-reliance in an attempt to reduce their dependence on the developed countries they have continued to be underdeveloped and in most cases have resorted to dependency on foreign capital and technology in an attempt to alleviate their poverty. These countries have found it difficult to operate without foreign financing. Consequently, industrialization which is supposed to solve dependency problems has in turn been increasingly dependent on the developed countries for financing, marketing, capital goods, technology, design, trade marks and licences. This process has led to a deepening of dependence and further underdevelopment. We do not intend to use the dependency theory in this study basically because our main interest is not to analyse among others, the effects of the heavy reliance on international capital by the Public Enterprises. Our main interest is to identify, analyse and understand the contributions that these public enterprises have made to national development

and their experiences in terms of achievements and constraints. This is due to the fact that public enterprises are intended to bring about positive changes which are fundamental in national development. These include employment creation, improvement of the well-being of the citizen by provision of basic public utilities, increasing indigeneous participation in Commerce and Industry and building an integrated national economy. It is therefore suggested that the modernization theory which will enable us identify these factors more concretely be used in this study.

The modernization theorists who include Neil Smeiser, Hoselitz, Eisenstadt and Talcott Parsons, among others, have argued that economic development takes place through the modernization of technology, leading to a change from simple traditionalised techniques to the application of scientific knowledge. This includes the commercialization of agriculture, the industrialization process and urbanization. Eisenstadt in particular holds that the sequence of development and the problems encountered are significantly influenced by the policies and strategies adopted by the more active elites of the society who have a major role to play in the institutionalization of modernization. Karl Marx had similar views regarding the role of railways in India under British colonial rule:

I know that the English millliocracy intend to endow India with railway with the exclusive view of extracting at diminished expense the cotton and other raw materials for their manufacture. But when you have once introduced machinery into the locomotion of a country, which possesses iron and coal, you are unable to withhold it from its fabrication. You cannot maintain a net of railways over an immense country without introducing all those industrial processes necessary to meet the immediate and current wants of railway locomotion, and out of which there must grow the application of machinery to those branches of industry not immediately connected with railways. The railway system will therefore become, in India, truly the forerunner of modern development.<sup>31</sup>

Other scholars such as Apter have argued that modernization will be the key to development in most Third world countries for some time to come. Consequently, most Third world countries have viewed public enterprises as important instruments of bringing about the process of social and economic transformation quickly. According to the modernization theory, the more you invest in any organization the better and the more effective the organization becomes. The question is; to what extent does this theory apply in boosting a country's development?

Looked at from this perspective, modernization theory will enable us to analyse the factors which have led to achievements or failures in public enterprises and the contribution of these enterprises to national development in Kenya.

## HYPOTHESES

The following hypotheses will act as a guide in answering our research question.

1. That the more the subsidies to a public enterprise, the more effective its role in socio-economic development.
2. That the higher the public demand of public enterprise services, the higher the performance of a public enterprise.
3. That the more the resources available to the public enterprise, the higher the quality/quantity of its services.
4. That the more strategic a public enterprise, the less important is performance criteria in monetary terms.

## METHODOLOGY

### SCOPE OF STUDY

This is a study of public enterprises which are set up by an Act of Parliament and operate under their respective parent ministries. These enterprises are entrusted with

the responsibility of executing various government policies. The Kenya Railways Corporation which is our case study is entrusted with the responsibility of providing a coordinated and integrated transport system throughout the country. This includes the rail and inland waterways transport services and auxilliary road services. The Kenya Railways also operates a Rail-tainer service whereby goods are loaded and/or off-loaded at the dry port facilities at Embakasi in Nairobi. Kenya Railways Marine service has passenger and cargo ships operating on Lake Victoria. The Kenya Railways is also one of the few public enterprises which has a training institute for its members of staff within the country. The Railway Training Institute offers courses in Engineering, Administration, Finance and Management to the members of staff and also to the other neighbouring countries. The Corporation also has a big workshop which carries out the Corporation's duties of maintenance, repairs and manufacture of equipment.

In addition, the Kenya Railways employs a large work force. For example, in 1989 the Corporation had 21,250 employees and paid a bill of KShs 700 million in wages. Its centrality as a major employer renders it a suitable choice as a case study of the nature and operations of a public enterprise. This choice is also necessitated by the fact that the development of a nation depends to a large extent on the efficiency of its internal

communication network and the railway is a key part of this network in Kenya. Kenya Railways is also one of the country's most important parastatals in terms of assets, services it is supposed to offer and the numbers employed. The railway is therefore an important instrument which could spearhead development throughout the country. It is entrusted with the responsibility of transporting goods for export to the ports and imported goods such as fertilizers which are destined for the upcountry farming communities. The railway system can therefore to a large extent contribute to the development of agriculture and industry in any country. As such Kenya Railways occupies a uniquely strategic position in Kenya's economic, social and by extension political infrastructure and this has motivated us to select it as our case study.

#### METHOD OF STUDY

In this research, we intend to study the role that public enterprises play in the area of national development and to establish whether their existence is actually inhibiting rather than promoting development. We also intend to determine the conditions, under which the government has continued to support, subsidise, rehabilitate and form new public enterprises in spite of their continued poor performance. In carrying out this study, we rely on three sources of data. These are:-



(i) Secondary Sources

Our main source of data is documentary. This is composed of different literature from several libraries and documents from Kenya Railways, the Parent Ministry, magazines, newspapers and any other relevant material which is available.

(ii) Primary Sources

Primary data are also collected through formal and informal discussions using an interview schedule with selected people who have indepth knowledge of the organization. Non-probability purposive, selective sampling is used to select these knowledgeable people.

These include:-

1. The Executive Chairman of the Corporation
2. Departmental heads or any other knowledgeable persons appointed by them
3. The Principal of the Railway Training Institute
4. The Station-Master, Nairobi.
5. The Workshop Manager
6. The leader of the Railways' Workers Union
7. The District Traffic Superintendents in Nairobi, Nakuru, Kisumu, Mombasa and Naivasha.
8. The officer in charge of the Railway Marine Services in Kisumu.

9. The former Managing Director of the Corporation.
10. The Permanent Secretary, Ministry of Transport and Communications.
11. The Director of the Inspectorate of State Corporations.
12. The Director, Auditor General, Corporations.

(iii) Observation Methods

In addition to secondary and primary sources of data we have also used observation methods, specifically, the participant observation method. This involved attending various meetings of the corporation, official functions and observing whatever was taking place within the organization and was relevant to this study. In doing this, care was taken to check on the accuracy of the observations.

DATA ANALYSIS

This involves the organization, classification, ordering, manipulating and summarising of data to obtain answers to the research question. This enables us to see whether the hypotheses are confirmed or negated or if a situation of no relationship is established. Through the use of Spearman Rank order statistic, we have found the strength of association between various variables with a view to making sound conclusions.

## FOOTNOTES

1. A. Rweyemamu and G. Hyden. A Decade of Public Administration in Africa. Nairobi: East African Literature Bureau, 1975 p. 234.
2. Kenya Government. Report and Recommendations of the Working Party on Government Expenditure. Nairobi: Government Printer, 1982 p. 40.
3. Sunday Nation. September 3rd 1989, p. 6.
4. Ibid. p. 19.
5. Kenya Government. Report of the Commission of Enquiry on the Performance of State Corporations. Nairobi: Government Printer, 1979 p. 12.
6. Weekly Review. September 8th 1989, p. 10.
7. Weekly Review. June 20th, 1983, p. 16.
8. J.R. Nellis. "Public enterprises in Sub-Saharan Africa". World Bank Discussion Paper 1, 1986, p. 7.
9. H.M. Marthur. "Public Enterprise Management Treasury in least developed countries of Asia and Pacific Region". In Public Enterprise Quarterly Journal, Vol. 5(1) 1984 p. 45.

10. V. Kreacic and P. Green. "Public Enterprise Study: The Tanzanian Cigarette Company Limited". In Public Enterprise Quarterly Journal, Vol. 5(2) 1985 p. 193.

See also

L.M. Briones. "The relationship of public enterprises with the national government in the Phillipines". In Public enterprise Quarterly Journal Vol. 5(4) 1985 p. 401.

S.A. Nawab. "The Evaluation of Public Enterprises: The Pakistan Signalling System". In Public Enterprise Quarterly Journal Vol. 5(2) 1985 p. 155.

11. Kenya Railways Annual Reports 1980-1987.

12. W.G. Friedman. Government Enterprise.  
Columbia: columbia University Press, 1976, p. 303.

13. Alec Nov. Efficiency Criteria for Nationalised Industries. London: Cambridge University Press, 1973 p. 55.

14. D. Coombes. State Enterprise: Business or Politics?  
London: George Allen Arwin Limited, Museum Street, Ruskin House, 1971 p. 37.

See also D.V. Verney. Public Enterprise in Sweden.  
London: Liverpool University Press, 1959 p. 16.

- 15. Ibid. p. 307.
- 16. Ibid. p. 33.
- 17. Ibid. p. 79.
- 18. G. Vladimir Kreacic and P. Marsh. "Public Enterprises in developing Countries. Structures, Performance and Culture". In Public enterprise quarterly Journal Vol. 5(4) 1985 p. 379.
- 19. Ibid. p. 156.
- 20. A. Rweyemamu and G. Hyden. A Decade of Public Administration in Africa. Nairobi: East African Literature Bureau, 1975 p. 238.
- 21. Okuthe Oyugi. "Public Investments for Private Enterprises: A Study of the Role of Parastatals as an action and indicator of social change in Kenya". (Institute for Development Studies, University of Nairobi, Working Paper No. 390, May 1982 p. 34).
- 22. Ibid. p. 21.
- 23. Z.H. Ahmed. "The foundry and Mechanical Workshop in Somalia". In Public Enterprise Quarterly Journal, Vol. 5(1) 1984 p. 82.
- 24. Ibid. p. 56.

25. D.W. Gachuki. "Public Enterprises and Foreign Capital in Kenya: The Policy environment". In the role of public enterprises in Development in East Africa, Proceedings of a Workshop 4th-7th Nov. 1981 (Institute for Development Studies, University of Nairobi, Occasional Paper No. 39, 1982 p. 46).
26. Ibid. p. 49.
27. S.E.B. Alaya. "Some thoughts of productivity in Public Enterprises in Developing Countries. In Public Enterprise Quarterly Journal Vol. 5(4) 1985 p. 393.
28. C.P. Atikoro. "The role of governments in Public Enterprises. A Case Study for the Uganda Advisory Board of Trade". (Institute for Development Studies, University of Nairobi, Occasional Paper No. 39, 1982 p. 126).
29. Ibid. p. 396.
30. D.G. McHenry Jr. "The government vis management controversy: Ascribing responsibility for the failure of a Public Corporation in Nigeria." In the Journal for Public Administration and Development, Vol. 4(3) 1984, p. 311.

See also:

M.M. Shirley. Managing State owned Public Enterprises.  
World Bank Working Paper No. 77 p. 102.

31. Marx Karl. Capital: A Critical Analysis of  
Capitalist Production. London: Swan Sonnenschein  
House and Company, 1887 p. 84.

## CHAPTER 2

### PUBLIC ENTERPRISES IN KENYA

In the previous Chapter, we saw that Public Enterprises have been accepted by most governments in the world as important features of their country's political economy. In this chapter, we focus our attention on Kenyan Public Enterprises.

#### PUBLIC ENTERPRISES DURING THE COLONIAL PERIOD

Public enterprises in Kenya have their roots in the colonial period. The public enterprises established during this period were mainly intended to service the settler economy. Accordingly, a good number of them were agricultural marketing and regulatory boards and they came to prominence just before and after the second world war.<sup>1</sup> This was after the 1929 crisis whereby farmers were badly affected by the drought, locusts and a general world-wide economic depression. The settlers argued that unless something was done, the entire colonial economy would collapse. Various support systems and regulations were therefore passed by the colonial government. This was the reason why from the 1930s there were established in Kenya many quasi-public enterprises intended to serve the interest of the settlers.



In order to study the case of public enterprises in Kenya more comprehensively, it is necessary to distinguish the various forms of public enterprises that have persisted in the country upto-date. This distinction is based on the functions they play in the economy.

They include:-

1. Marketing (Regulatory) Boards
2. Financial Enterprises
3. Development Corporations
4. Public utilities.

#### MARKETING (REGULATORY) BOARDS

The marketing boards are confined to controlling of production, marketing and distribution of different crops and products through licencing and regulating measures. Most of them have their roots in the colonial period. X This is because the European Settlers wanted to maintain a monopoly over the production and marketing of cash crops such as coffee, tea and pyrethrum. This was done through the establishment of centrally controlled and organised regulatory boards.

We therefore saw the establishment of the Coffee Board of Kenya in 1933 which was intended to control the production, distribution and marketing of coffee

throughout the country. The Tea Board of Kenya was later formed in 1950. This was a statutory organization created to exercise licencing control over the planting of tea and manufacturing factories and was empowered to regulate the methods of planting, cultivation and processing of tea.

*grains*

In 1950 the Kenya Meat Commission was established through an Act of Parliament and was intended to be a monopoly over the purchase of cattle and small-stock slaughter, processing and marketing of beef products in the country and at the international market. The functions remain basically the same today.

Several other marketing boards were established in the 1950s. These included the Cotton Lint and Seed Marketing Board set up in 1954 and whose function was to stabilise cotton prices and to improve the marketing of the crop.

The Kenya Dairy Board was established in 1958 to regulate, organise and control the marketing and improvement of the quality of milk and dairy products.

Maize has for a long time been a widely grown crop in Kenya. During the colonial days and even today, most of the population was involved in its production. There was therefore the necessity to regulate the marketing and production of the maize in order to ensure higher prices

were obtained and its production did not therefore decline. As a result of this, several large scale farmers came together and formed the Kenya Farmers Association. Further, in an attempt to ensure that there was enough maize in the country, the colonial government passed a regulation known as Maize Control in 1942. This was followed by the establishment of the Kenya Agricultural Board in 1957. This board was later reorganised to become the Maize and Produce Board with the Kenya Farmers Association as its main agent.

In 1979, all the Boards dealing with production, distribution and marketing of cereals such as the Maize and Produce Board, the Wheat Board and the Rice Board were amalgamated to form the National Cereals and Produce Board. The functions of this board are the regulation of the production, distribution and marketing of all cereals in the country and maintenance of strategic reserves.

During the post independence era, Marketing Boards have continued to be formed where the need arises. Their functions have however, remained basically the same. They have especially been established primarily for the stabilization of producer prices and to eliminate the middlemen. Through these Market Boards, it is hoped that the producer would get the best price for his produce.

## FINANCIAL ENTERPRISES

Public Financial Institutions have their roots in the colonial era. In 1930, the colonial government created the Land Bank which was to provide long term loans at low interest rates to the settlers. The world wide economic depression and the drought which occurred in the late 1920s threatened the colonial economy and this led to the creation of the Bank. It was therefore established in order to enable the settler farmers borrow capital to improve their farms. The Land Bank was later renamed the Land and Agricultural Bank of Kenya and continued to be the leading agricultural financial institution throughout the colonial period. In 1963, it was reconstructed to become the Agricultural Finance Corporation. This Corporation provides both mortgage and development credit to both large and small-scale farmers. From 1973-1979 for example, the corporation's loan approvals amounted to Kshs. 1,500 million.<sup>2</sup>

In 1942, the Agricultural Loan and Guaranteed Minimum Returns (GMR) for several crops was also introduced. This meant that the state would ensure that if any losses accrued to a farmer due to drought or a similar problem, the government would compensate the affected farmer. The introduction of this scheme can be explained by the fact that although a general improvement

in agriculture was realised after the establishment of the Land Bank, it was seriously interrupted by the outbreak of the second world war. Most of the capital was directed to the war and this affected the availability of capital for agriculture. The war also led to a greater demand for food. It was therefore eminent to offer new incentives aimed at increasing food production to be able to feed the soldiers, prisoners and all those who were involved in the war. The Guaranteed Minimum Returns Scheme was inherited at independence and remained in operation until 1980 when it was replaced with the Seasonal Credit Scheme.

There were other public institutions created to facilitate the provision of finance to the farmers. Among these was the Cereals and Sugar Finance Corporation established in 1955 and was intended to provide finance to sugar-cane growers and other specific cereals. All these institutions led to improvements in agricultural production both during the colonial period and after independence. More public enterprises were created after independence with the aim of further improving agricultural production. These included the Agricultural Development Corporation which was created in 1965 with the objective of securing the transfer of large farms to the nationals

#### THE DEVELOPMENT AUTHORITIES

When Kenya achieved independence in 1963,

politicians discovered to their dismay that the commercial and industrial sectors of the economy were largely controlled by foreigners. Reports, for example, revealed that in 1955, 246 new companies owned by Europeans with a nominal capital of £8,875,892 and 99 companies owned by Asians with a nominal capital of £3,559,400 were registered while only one company owned by an African with a nominal capital of £250 was registered.<sup>3</sup>

Such a situation was unhealthy both economically and politically since without control of the economy, the new government could not plan economic growth, nor bring about African participation in business or solve the problem of unemployment. The government also realised that enormous and urgent problems of development could not be solved by private enterprises. The new government therefore came to the conclusion that for the country to develop it had to be actively involved in the productive sector. The Ministry of Agriculture for example was no longer to be satisfied with being a research department but had to go into agricultural production. These reasons led to the establishment of the development corporations which are a common feature in the country today.

The Development Corporations are therefore institutions that have been assigned broad economic objectives of securing coordinated development and are

regarded as instruments for the furtherance of government policy. There are several forms of Development Corporation. They include:-

(a) Sectoral Development Corporations

These aim at stimulating sections of the economy especially in areas of strategic importance to the national economy. An example is the Kenya Tourism Development Corporation which is entrusted with the responsibility of promoting the tourist industry in Kenya. Tourism is one of the most important sources from which the country earns her foreign currency.

(b) The National Development Corporations

These are expected to contribute to all sectors of the economy. The Development Finance Company of Kenya whose role is to stimulate the flow of private investment by providing loans or share capital to fill marginal gaps in project finance is a good example of a National Development Corporation.

(c) Regional Development Authorities

These are normally established to initiate and coordinate development activities within defined areas. This type is intended to be for the rural development and it first emerged in 1974 when Parliament voted the Tana

River Development Act. This Authority was given the mandate to promote the development of the Tana River Basin.

In October 1978, President Moi announced the creation of the Lake Basin Development Authority to coordinate and develop projects around Lake Victoria.

In January 1979, the Kerio Valley Development Authority was formed with the intention of exploiting the economic potential of the Kerio Valley.

(d) Commodity Development Authorities

These are usually established in the agricultural sector to secure coordinated development of selected commodities of national importance. An example is the Horticultural Crops Development Authority which was established in 1957 and coordinates and controls the horticultural industry in Kenya. It is responsible for the purchase of growing materials, fixing of prices of horticultural crops, issuing of licences to exporters and control of air-space for horticultural products. The estimated revenue of this Authority was K&2.3 million annually in 1979.<sup>4</sup>

The Kenya Tea Development Authority is another example of a Commodity Development Authority. The



predecessor of this authority was the Special Crop Development Authority which was established in 1960. Its functions were mainly to facilitate the implementation of the recommendations of the <sup>UN</sup> Swannerton Plan of 1954. This Plan allowed the growing of cash crops among the Africans and the Authority was consequently formed so as to give loans for the growing of tea among the Africans. The Special Crop Development Authority was replaced in 1964 by the Kenya Tea Development Authority whose main objective was to promote and foster the development of tea growing among small scale farmers.

#### PUBLIC UTILITIES

Unlike the Development Corporations, most public Utility Corporations in Kenya were established by the colonial government. This is because although the main interest of the colonial government was the maintenance of law and order and playing the role of a salient umpire for the private entrepreneurs in the exploitation of the resources of colonial Kenya, there were areas where the entrepreneurs were hesitant to venture either because of the attendant risks or because they involved huge capital investments with low rates of return. Rweyemamu has for example argued that in the colonial territories, entrepreneurs were normally interested only in net returns of 15-20% on capital, usually on the basis of an

investment maturing in about 5 years.

Utilities were also fields which the colonial government considered essential for the maintenance of law and order and for the maintenance of minimum living standards for the civil and military administrators.

This is how the railways, electricity, airways, water and telecommunications came into being. All were government departments until pressure for more business like operations resulted in converting some of them into corporations or state owned companies.

Public Utility Corporations were therefore established in order to fill in the gap left by the private enterprises. Their expansion in the post independence period has been dictated by the demands for basic infrastructures to promote development.

### THE INDEPENDENCE PERIOD

Like most other newly independent African States, Kenya was faced with the enormous task of bringing about development when she attained independence in 1963. Kenya inherited a framework of public enterprises geared towards the satisfaction of the interests of the settlers. There

was therefore an urgent need of raising the living standards of the Africans which had been totally neglected by the Colonial government. One way of doing this was in having these Africans participate fully and meaningfully in the economic, social and political affairs of their country. New and relevant development policies that aimed at catering for these Africans were formulated. These policies were contained in the Sessional Paper No. 10 of 1965 which argued that Nationalization was to be carried out only

1. When the assets in private hands threaten the security; \*
2. When productive resources are being wasted;
3. When the operation of an industry by private concerns has a serious detrimental effect on the public interest: and
4. When less costly means of control are not available or are not effective.<sup>o</sup>

*Start* After independence, Kenya therefore opted for a mixed economy. The economic and social structure which the country had inherited corresponded neither to the needs nor to the aspirations of the African majority. Industrial production was oriented towards the fabrication of consumer products for a privileged minority constituted mainly of foreigners of British origin. In the agricultural sector, the production of cash crops was

restricted only to the European settlers till the eve of independence, while land distribution favoured the same group. In 1962 for example, some 3,000 settlers were occupying 26 million hectares of the best farmland, while the 7 million Africans were forced to share 8 1/4 million hectares. The commercial, financial and banking sectors reflected the same tendency of foreign domination.

The aim of the government after independence was therefore to integrate the Africans into the capitalist production process. Various marketing boards were Africanised and policy changes implemented so as to serve the Africans. Where necessary, new institutions were also created.

*if talking about (Africans) (Africanisation)*

In the industrial sector the inherited Industrial Development Corporation was reorganised and expanded to cover the commercial sector as well. Its name now became the Industrial and Commercial Development Corporation (I.C.D.C) and was entrusted with the responsibility of investment in large industrial projects, the development of industrial estates and the development of rural and other small scale industries through the provision of financial assistance and management service to African businessmen.

Since its inception the ICDC has established other

subsidiaries. These include the Kenya National Trading Corporation which was established in 1965. Its inception was part of the strategy to Africanise both the wholesale and the retail trade. By initially dealing in basic consumer commodities as a monopoly, the government wanted to ensure the regular availability of these goods and to act as a major supplier to the new African traders. The corporation started with 35 distributing agents in 1965 and had more than 3,000 in 1978 with a turnover of Kshs. 1.16 billion in 1977 of which 11 million was in the form of profit.<sup>8</sup>

Other subsidiaries established by ICDC include the KENATCO Transport Company and the Kenya Industrial Estates.

The other major public enterprise established after independence to give financial assistance to upcoming African businessmen and industrialists was the Development Finance Company of Kenya (DFCK) which by 1964 was the main instrument of the government participating in major industrial ventures. Its role is to stimulate the flow of private investment by providing loans or share capital to fill marginal gaps in project finance with emphasis on large, industrial, agricultural and mining ventures. The I.C.D.C. and the DFCK have since independence assisted several Africans to participate in business.

The Agricultural Finance Corporation was created in 1963 and was the successor of the Land and Agricultural Bank which was established in the 1930s. Since its reorganization, the AFC has been the main agricultural institution owned by the government. It assists the farmers by offering short-term loans.

The National Housing Corporation was established in 1967 and its main function was to ensure adequate provision of shelter for all the citizens. This is usually done through the construction of houses by the corporation which are provided to the citizens through the mortgage, rental or site and service schemes. Housing problems and shortages in Kenya, especially in urban centres like Nairobi, however, continue to be acute.

The National Construction Corporation was created in 1967 when it appeared that the Africans were experiencing problems due to lack of capital and credit facilities for the acquisition of materials, equipment and transport. It was first a limited liability company but was transformed in September 1972 by an Act of parliament into a public corporation under the Ministry of Works.

By 1979, out of the 850 African Constructors registered with the Corporation since its inception, 459

were still active. By June 1978, the National Construction Corporation had accumulated losses upto Kshs. 30.6 million, out of the Kshs. 57.6 million the government had pumped into it since 1967. The Corporation, inspite of continued provision of subsidies by the government was closed down in 1986 due to poor performance and bankruptcy.

It might be difficult for us to analyse the origins and functions of all the public enterprises in Kenya. As stated in Chapter 1, by 1982, we had 147 Statutory Boards formed by the government under specific Acts of Parliament, 36 companies in which the State had controlling shareholding (more than 51%), 47 companies owned by the government directly and 93 companies in which the state or its various statutory boards had a minority shareholding. In total, the government had interests directly or through Statutory Boards in 176 Companies in 1982<sup>10</sup>. The number has since increased. Suffice at this point is therefore to point out that several public enterprises were established in 1978 after the collapse of the East African Community. These included the Kenya Railways Corporation, the Kenya Airways and the Kenya Ports Authority. These are basically public utility corporations and have their roots in the colonial period.

All the above illustrates the fact that public enterprises in Kenya are diverse in both origins and

## FUNCTIONAL CLASSIFICATION OF PUBLIC ENTERPRISES

Marketing Boards	Financial Institutions	Public Utilities	Development Authorities
National Cereals & Produce Board <i>Dead on head</i>	Agricultural Finance Corporation <i>Dead</i>	Kenya Railways <i>Dead</i>	L. Basin Development Authority <i>Dead</i>
Coffee Board of Kenya <i>Most dead</i>	Housing Finance Co. of Kenya <i>Dead</i>	*Kenya Airways <i>Sold</i>	Kerio Valley Dev. Autho. <i>Dead</i>
Cotton Lint and Seed Marketing Board <i>Dead</i>	ICDC (KNTC) <i>198</i> IDB, MINET, K.I.E. etc)	Kenya Post & Telecommunications <i>Divided</i>	Kenya Tea Development Authority <i>Comp</i>
Tea Board of Kenya <i>x</i>	Kenya National Assurance <i>Bankrupt</i>	<del>Nyayo Buses</del> <i>long dead</i>	<i>Dead</i> Agricultural Dev. Corp. <i>sects</i>
Pyrethrum Board of Kenya <i>Dead</i>	* Kenya Commercial Bank <i>Making losses heavy</i>	Kenya Ports Authority <i>✓</i>	<i>Comp</i> Horticultural Crops Dev. Authority
Dairy Board of Kenya <i>Dead</i>	Kenya Finance Corporation <i>Dead</i>	KEMRI <i>✓</i> KETRI <i>✓</i>	<i>✓</i> Tana & Athi Dev. Authority
Pig Industry Board etc <i>Dead</i>	* Savings & Loans Ltd. <i>x</i>	Kenya bureau of Standards <i>✓</i>	<i>Mark</i> Nyayo Tea Zones Dev. Corp. etc <i>Dead</i>



roles.

## CLASSIFICATION OF PUBLIC ENTERPRISES ACCORDING TO FORMS OF MANAGEMENT

According to A.H. Hanson, it is possible to identify at least four types of public enterprises. Other studies have shown that, the type of a public enterprise is not the sole determinant of its performance. This is due to the fact that almost every known type of a public enterprise is to be found working well in some circumstances and badly in others. It is therefore extremely difficult to say to what extent the performance of a particular enterprise has been affected by its type since to isolate this factor from others is usually impossible. Hanson points this out clearly when he states that:-

Even if one confines his attention to the well established public enterprises of the developed countries, it is not easy to judge the relative merits of alternative forms of organization. It is still more difficult if ones range of vision includes newly established public enterprises in underdeveloped countries.

He further states that the various types of Public enterprises include:-

### DEPARTMENTAL MANAGEMENT

This is the traditional type of public enterprise in both the developed and the developing countries. It has been used in railways, ports, and harbours, communication, commercial and industrial monopolies of revenue raising character and even government manufacturing industries.

The departmental management has the following characteristics:-

1. It is financed by annual appropriations from the treasury and all, or in some cases, a major share of its revenues are paid into the treasury.
2. The enterprise is subject to the budget, accounting and credit controls applicable to other government departments.
3. The permanent staff of the enterprise are civil servants and the methods by which they are recruited and the conditions of service under which they are employed are ordinarily the same as for other civil servants.
4. The enterprise is organised as a major sub-division of one of the central departments of government and is subject to the direct control of the head of department.
5. Wherever this applies in the legal system of the country concerned, the enterprise possesses the sovereign immunity of the state and cannot be sued

without the consent of the government. 12

The departmentally managed public enterprise lacks management autonomy which is vital for the efficiency and success of a public enterprise. Without this autonomy, initiative and flexibility within the organization are reduced resulting to inefficiency. An example of a departmental management type of enterprise has been the voice of Kenya (VoK) which has now been changed to the Kenya Broadcasting Corporation. Others include the Department of Civil Aviation and the Meteorological Department. It is worth noting that in this form of a Public enterprise, there is no ambiguity about the degree of public accountability. There is also a clear relationship with other parts of the government structure.

#### THE PUBLIC CORPORATION

The public corporation is the most highly regarded of all the types of public enterprises.

According to a United Nations Technical Assistance Administration Study, it can be recognised by the following characteristics:-

1. As a body corporate, it is a separate entity for legal purposes and can sue and be sued, enter into contracts and acquire property in its own name.
2. The public corporation has freedom in making

- contracts and acquiring and disposing of property.
3. It is generally created by, or pursuant to a special law defining its powers, duties and immunities and prescribing the form of management and its relationship to established departments and ministries.
  4. Except for appropriations to provide capital or to cover losses, a public corporation is usually independently financed. It obtains its funds from borrowing either from revenues derived from the sale of its goods and services. It is authorised to use and re-use its revenues.
  5. It is generally exempted from most regulatory and prohibitory statutes applicable to expenditure of public funds.
  6. In the majority of cases, employees of public corporations are not civil servants and are recruited and remunerated under terms and conditions which the corporation itself determines. 13

From the above characteristics, it is evident that the public corporation device provides a framework more appropriate than that of a government department for the conduct of certain economic activities.

#### THE STATE COMPANY

The state company form of public enterprise

has been widely used in Europe and in several parts of the developing countries especially in Latin America and Asia.<sup>14</sup> It is an enterprise established under the ordinary company law of the country concerned in which the government has a controlling interest through its ownership of some or all the shares. A state company form of public enterprises covers enterprises wholly owned by public authorities as well as the joint ventures in which the government enters into partnership with private owners of capital.<sup>15</sup>

A state company can be formed when a government acquires shares in a private firm of national importance in order to save it from bankruptcy. An example of this in Kenya is KENATCO transport company. For a long time since the 1960s this company has been one of the rare public enterprises that operate in a sector in direct competition with the nationals. It was initially a cooperative, the Kenya National Cooperative Society Limited and was founded by a group of owners-operated taxi proprietors who decided to venture into the transport industry in the early 1960s. By 1966, the company was faced with liquidation by its creditors. This was as a result of problems due to lack of essential back-up services, technical know-how, financial advice and competent management. The government consequently intervened to save the society and through the ICDC, took over KENATCO with the cooperative society

retaining a token share. By 1981, the society had been liquidated and its share bought out by the ICDC.

Companies originally created under the ordinary company law by private groups and individuals but which later attracted government involvement were also very common in Europe especially during the period between the two world wars.<sup>16</sup> The governments acquired some or all of the shares in companies whose activities were considered vital for the economy. In this case, as opposed to nationalised industries, the companies remained registered as private companies. The government only controlled them by acquiring some or all of the shares. The intention was that after some period, the government would resell these shares to the private owners.

The state company device has two shortcomings. First, the company device does not subject such an enterprise to the regulation and responsibilities which a state controlled enterprise has. They are for example not subject to parliamentary control to the same extent as the wholly owned government enterprise. Their accounts are not audited by the Auditor General, Corporations, nor are their annual reports debated in Parliament. Secondly, the state companies are managed more like private companies and most of their profits may go to the private shareholders with the public only acting as a protector.

They are therefore very deceptive.

### THE OPERATING CONTRACT

This is the fourth type of a public enterprise.

The Rangoon (Burma) document States that:-

A comparatively new device for administration of a public enterprise is the operating contract. The government enters into a contract with an established private company for the management of a public enterprise and agrees to reimburse the contractor for all costs which he incurs. The contractor is compensated for his services by a fixed fee set by negotiation within the terms of the contract, leaving less freedom for the managing company than it would have if it were operating privately; the contractor is given full authority to employ and dismiss personnel, determine rates of compensation, purchase supplies and equipment, determine operating policies and so forth. Status applicable to governmental agencies do not apply to the contractor. Personnel hired by him are not considered to be public employees. In this way, the contractor is able to operate the enterprise to a large extent in the same way as he would if it were a subsidiary of his private company. 17

*Butler Take  
and Minister's  
copy.*

From the above remarks, it is clear that the operating contract does not in any way alter the characteristics of a public enterprise as defined in this thesis. The only difference is that instead of the management of an operating contract type of enterprise being made up of a board appointed by the government, the management is in the hands of a private company. In this respect therefore the operating contract is similar to the state company which is also managed by a private company. The difference between the two is that the operating

TABLE 2:2

Departmental Management	Public Corporation	State Company	Operating Contract
Matereological Department .	Kenya Railways Kenya Airways.	Development Finance Co. of Kenya .	Mumias Sugar Co. ,
Directorate of Civil Aviation.	Kenya Posts & Telecommuni- cations.	Housing Finance Co. of Kenya .	Nzoia sugar Company
Directorate of Personnel Management.	Kenyatta National Hospital.	General Motors (K) Limited ,	South Nyanza Sugar Co.
Judicial Department.	Kenya Broad- casting Corporation.	Rivatex, Kicomi, Metal Box etc.	Miwani Sugar Co.

Source: Compiled from Research Data.



contract is registered as a public enterprise while the state company is registered under private company law. The major justification of an operating contract type of public enterprise is that it facilitates more flexibility and therefore efficiency than the departmental type of enterprise or the state company. It is however difficult for the government to intervene to ensure that the general direction given to the enterprise is in line with public policy.

THE PERFORMANCE OF PUBLIC ENTERPRISES IN KENYA

Since governments have taken up responsibilities within national economies during this era of industrialization, their role as entrepreneurs has been controversial and is the subject of criticism and enthusiasm as well.<sup>18</sup> Discussions centre around the necessity and existence of public enterprises as well as a wide range of opinions concerning the extent of controlling or promoting the economy through public enterprises.

We have seen that at the time of independence, Kenya inherited a framework of public enterprises covering many sectors of the economy and especially in the agricultural sector. Many more public enterprises have been formed since independence to satisfy certain public needs. Most of these enterprises are however dependent on

international capital under state guarantee. The DFCK for example is heavily dependent on loans from the Commonwealth Development Corporation, the Netherlands Overseas Finance Company and the German Development Corporation.

The Agricultural Finance Corporation, the Kenya Tea Development Authority and the Kenya Airways are also heavily dependent on loans. Further, the Lake Basin Development Authority, the Kerio Valley Development Authority, and Tana and Athi which are very recent are all dependent on foreign capital financing. This dependency has raised the question of how public enterprises which are not self financing are expected to contribute to national development. Nellis has argued that high interests on loans and the U.S. dollar exchange rates have caused severe financial problems for public enterprises relying more and more on commercial borrowing.<sup>19</sup>

A study in 1970 worked out that counterpart expenditures to Kenya were just under £4 million for a total technical assistance disbursement of £9.5 million. 80% of this sum was on local salaries and housing.<sup>20</sup> The increased and continued reliance on private foreign capital over which Kenya has very little control has therefore enormously contributed to the poor performance

of the public enterprises. This is because the income which accrues to these organizations is usually used to service long term loans which are normally tied loans.

Most of the public enterprises in Kenya have therefore had problems concerning their regulatory, developmental and commercial functions and performance. The general view is that these enterprises have yielded a very low rate of return on the large amount of resources invested in them to the extent that even the government itself is openly voicing concern. The 1979 Ndegwa Committee Report noted that public enterprises in Kenya were characterised by prolonged inefficiency, financial mismanagement, waste and malpractices. Indeed one of the principal recommendations of the working party on government expenditure was that the government should disinvest some of the public enterprises. The committee noted that the industrial activities had been carried too far and was inhibiting rather than promoting development. Moreover cumulative investment by the government in parastatals and other enterprises in which the state had interests had by 1982 exceeded K£900 and at a rate of return of 10% the government should have been realising K£90 million per year in dividends. Instead, dividends paid to the exchequer only amounted to Kshs. 2.2 million. The committee after all suggested that there were too many parastatals and these had imposed an administrative burden on the state.<sup>21</sup>

As indicated by the few examples of public enterprises given in this chapter, reports of mismanagement and poor performance have been reported in most of them. Such reports have also been made several times regarding the Kenya Meat Commission which had to close down for sometime due to these problems. For a long time this commission had been exporting meat and meat products through middle men who could be done away with. Though the Kenya Meat Commission has been reopened, it remains to be seen whether its performance will be any different.

Commissions of inquiries and probe committees have also been established to look into the causes of poor performance of the Kenya Tea Development Authority which has been used over the years as an example of a successful public enterprise. Also for Kenya Railways which has been in existence since 1899 and where problems of mismanagement and poor performance have been reported. Reports of mismanagement have also been made several times in the National Cereals and Produce Board, the Diary Board, Cotton Lint and Seed Marketing Board, Uplands Bacon Factory, Kenya Airways, Kenya Cooperative Creameries, to mention but a few. The list of these "poorly" managed public enterprises in Kenya is actually long. Indeed one would end up mentioning all of them. It is however interesting to note that most of these enterprises

which have been accused of performing poorly and being mismanaged and are basically those which are servicing the other sectors of the economy which includes the private entrepreneurs and most of the population. Kenya Railways <sup>is</sup> ~~is~~ one such enterprise and is supposed to provide "cheap" means of transport to freight and passenger traffic. As we shall see in the following chapters, this corporation has performed relatively well in the provision of these services. However, due to lack of financial profits from the corporation, it has often been a subject of attacks since the general view is that it has performed poorly.

Problems of poor performance of Kenyan Public enterprises have often been blamed on lack of control. The establishment of various bodies such as the Inspectorate of Statutory Bodies and the Auditor General, Corporations, has often been seen as solutions to these problems. In spite of all this, there has still been no significant improvement in the performance of these enterprises. Since these controls have not helped, one should perhaps look at the nature of the social-political and economic benefits which accrue to the private entrepreneur and the ordinary citizen rather than concentrating on the profits made by these enterprises. As we shall see in the following chapters this point is empirically demonstrated by the Kenya Railways.

CONCLUSION

In this chapter, we have seen that public enterprises in Kenya are largely a product of the historical development of the country since the colonial rule. Initially their establishment was mainly due to the attempts by the colonial settlers to establish a monopoly and protection over the production and marketing of agricultural products, the mainstay of the colonial economy. After the country achieved independence in 1963, Africans took over farming but the structural pattern remained unchanged. All that happened was that the agricultural sector was Africanised in the sense of replacing whites with blacks. Agricultural products continued to be the mainstay of the country's economy even after the farms formerly occupied by settlers were taken over by Africans, mainly the well-to do individuals in the public service and in positions of leadership. The public enterprises established mainly during the colonial era therefore continued to serve powerful economic interests as those of the colonial period.

Scarcity of indigenous capital and commercial knowledge led after independence to a situation whereby the public enterprises became the most important instruments of the government to promote economic development and to bring to the Africans a bigger share in the economy. Again, this only benefitted mainly the

Africans who were in leadership positions and in the public service. The reasons for the establishment of these enterprises can therefore be seen in the restrictions of Africans in industrial participation during the colonial time, in the inability of private enterprises to solve urgent development problems and to take over risky projects with small returns, in the provision of the necessary infrastructure for industrial activities and in financing the national budget.<sup>22</sup> The public enterprises were therefore established after independence due to a variety of political, economic and social objectives.<sup>23</sup>

The various objectives included the need to transform the rest of the Kenyan economy from a subsistence to a market economy and the need to encourage and facilitate African participation in the economy with the aim of creating and developing indigenous private entrepreneurs.

Various public enterprises existing in Kenya today can be classified in terms of functions as well as in terms of the form of management. The classification in terms of the functions includes the marketing boards, the financial institutions, the public utilities and the development corporations, while classification by the form of management includes the departmental management, the

public corporation, the state company and the operating contract.

To most Kenyans, there is no doubt that all is not well with the Kenyan public enterprises. As will be shown later, our study of the Kenya Railways reveals that the problem is inherent in the nature of the Kenyan Society and the development strategy pursued since the colonial times. The problem is further accentuated by lack of effective institutional control of the operations of these organizations.



## FOOTNOTES

1. C.P. Atikoro. "The role of governments in Public Enterprises. A case study for the Uganda Advisory board of trade. Institute for Development Studies, University of Nairobi, Occasional Paper No. 39, 1982 p. 15.
2. Okuthe Oyugi. "Public Investments for Private Enterprise: A Case Study of the role of parastatals as an action and indicator of social change in Kenya". Institute for Development Studies, University of Nairobi, Occasional paper No. 39, 1982 p. 226.
3. A. Rweyemama and G. Hyden. A Decade of Public Administration in Africa. Nairobi. East African Literature Bureau, 1975 p. 76.
4. H.G. Klaus. "Management Problems and Strategies of Parastatals in Kenyan Horticultural Industry". Institute for Development Studies, University of Nairobi, Occasional Paper No. 39, 1982 p. 124.
5. Ibid. p.5.
6. Kenya Government. Sessional Paper No. 10 on African Socialism and its application to Planning in Kenya. Nairobi: Government Printer, 1964 p. 10.

7. Ibid. p. 228. Rweyemamu and G. Hyden. A Decade of Public Administration in Africa
8. Ibid. p. 232.
9. Ibid. p. 240.
10. I. Heidermann. "Public Enterprises and Economic Sciences in Africa". In the role of Public Enterprises in Development in East Africa. Institute for Development Studies, University of Nairobi, Occasional Paper No. 39, 1982 p. 29.
- 11 - 17. A.H. Hanson. Public enterprise and Economic Development. London: Routledge and Kegan Paul Ltd., 1959 pp. 336-359.
16. D. Coombes. State Enterprise: Business or Politics? London: George Allen Anwin Limited, Museum Street, Ruskin House, 1971 p. 27.
18. Ibid. p. 15.
19. J.R. Nellis. Public Enterprises in Sub-Saharan Africa. World Bank discussion Paper 1, 1986.
20. A. Hazlewood and G. Holtham. Aid and Inequality in Kenya. London: Croom Helm, 1976 p. 68.

21. Kenya government. Report and Recommendations of the Working Party on Government Expenditure, Nairobi: Government printer, 1982 p. 16.
  
22. R. Abramson. "Planning for Improved Performance and Organization development in the East African Public Corporations". In Public Enterprise quarterly Journal Vol. 1 (1) 1980 p. 39.
  
23. W. O. Oyugi. "Government and Public Enterprises. Some Observations on Kenya. In the role of Public Enterprises in Development in East Africa, Institute for Development Studies, University of Nairobi, Occasional Paper No. 39, 1982. p. 52.

CHAPTER 3THE RAILWAYS IN KENYA'S ECONOMYINTRODUCTION

In 1890, a Conference of the Great Powers at Brussels agreed to get rid of the slave trade in Africa and determined the steps to be taken in order to realise this. These included development of transport particularly railways and provision of steam boats on the lakes as well as the establishment of telegraphic communications. Following this conference, the Imperial British East Africa Company, which was, in effect, carrying out the duties of the British Government both in what is now Kenya and Uganda, asked Captain Lugard (later Lord Lugard) to recommend a railway route from the coast into the hinterland.

Lugard's suggested route would have run from Malindi along the Galana River through Machakos to Dagoretti. The company however, decided that the line should start from Mombasa and in 1891, a preliminary report was made by three eminent engineers stating that a railway from Mombasa to Lake Victoria was feasible and recommending that a survey be made.

After the survey was completed by Captain

Macdonald in 1893, the construction of the railway began in 1895. It was however beset with all kinds of difficulties. The country was virtually unknown, inhospitable and at that time, unhealthy. All work had to be done manually and since no suitable labour could be found locally, it had to be imported from India. This was the main origin of the present day Indian population in Kenya.

The first stretch of the line had to be built over the waterless Taru desert and, further on, the line laid over the Rift valley and out again. This involved tremendously difficult engineering activities.

A most spectacular story of the construction is that of the man eating lions of Tsavo, which brought the construction works to a virtual standstill for about three weeks at the end of 1898. These lions claimed the lives of 28 Indian Coolies and a large number of Africans. There is another story of a lion which, in June 1900, actually climbed into a carriage at Kima and carried off and killed the then Superintendent of the railway police.

Altogether, the building of the railway was a tough job and it is no wonder that progress was extremely slow by modern standards. The railway reached Nairobi in 1899 and here, the railway headquarters was established.

The section west of Nairobi was difficult from an engineering point of view. The descent into the Rift valley made it necessary to put in a rope incline to speed up the construction and finally the railway reached the shores of Lake Victoria in December 1901, at a place which was then called Port Florence which is now known as Kisumu. The line between Nakuru and Kampala was built between 1929 and 1931.

Since its construction, there have been numerous changes in the titles referring to the railway authority in Kenya. There was first the Uganda Railway which remained from 1896 to 1926 and gave way to the Kenya Uganda Railway. This authority maintained its name for only one year and then Kenya Uganda Railways and Harbours came into being. This was as a result of bringing the ports and harbours under the control of the railways. This Kenya and Uganda Railways and Harbours lasted until 1948 when it gave way to the creation of the East African Railways and Harbours. This was formed as a result of the amalgamation of the Uganda Railways and Port services within the framework of the East African High Commission.

In 1961, the East African Railways and Harbours was placed within the East African Common Services Organization (EACSO later the East Africa Community). It

was therefore an embryo federal body to which the general manager was made responsible through a ministerial committee whose members were supplied by the governments of the three East African States. The East African Railways and Harbours was therefore a Supra-national Public Corporation. It had a monopoly of all public passenger and goods rail transport and ran extensive marine and road services. Its operations extended to most parts of East Africa. The Corporation had a railway track of over 3,669 route kilometres and inland marine services covering 3,469 kilometres as well as road services covering 2,367 route kilometres.<sup>1</sup>

In 1969, the railways and harbours systems were separated and in that year, the East African Railways Corporation was formed under the East African Community. This Community broke in 1977 and following this, the Kenya Railways came into being in 1978.

From all the above, one would be correct to deduce that the railway in Kenya is now 95 years old. In all the various systems under which it has been managed, the railway business has had similar goals and objectives. The changes that have taken place in the railways over the years have however often necessitated the review of these objectives. These reviews have often been dictated by

political as well as economic influences.

While opening a Senior Management Course at the Railway Training Institute in September 1989, the Executive Chairman of the Railways stated that the objectives of the Corporation are:-

1. "To provide a network of rail/water freight and passenger transport services to meet the present and future needs of our customers." He went further and stated that he believed the railways had a long way to go in achieving this objective.
2. "To operate commercially and to earn sufficient revenue from the provision of its services to cover its operating costs, earn a return on its assets and to provide funds for investment."<sup>2</sup>

#### THE RAILWAYS AND KENYA'S ECONOMY

The building of the railway in Kenya was as a result of the ambition of the Imperial British East Africa Company. British interests in Uganda developed originally because they wished to cut off the slave trade at its roots and to reach the source of the Nile which had been discovered in 1863. The only way the engineers could



accomplish this was to connect the coast of Mombasa on the Indian Ocean with Lake Victoria. Such a link with the Coast of Mombasa was seen as important in consolidating British influence in Uganda, suppressing the slave trade and perhaps more important, developing legitimate trade. Consequently, the present day railway in Kenya was built in an ad hoc manner and its positioning was determined by British interests in Uganda. In particular this railway was built for assumed strategic reasons and not specifically to promote development in Kenya. Moreover, even before its construction, the economic prospects of the railway did not appear to be good. Lord Salisbury, in writing to the treasury for example stated that: "As the railway will pass through a sterile region and have in a great part of its course no lateral feeders, the hope of its becoming eventually remunerative can only rest on the prospects of the gradual civilization of the dense population surrounding the lake districts."<sup>3</sup> The Colonial Governor, Sir Charles Eliot, in 1905 even confessed that he did not know why the railway was built. He found it hard to believe that a railway could be built solely to suppress the slave trade. Nor could the British control the source of the Nile since no attempt was made to connect through to the Nile. He concluded that it was done because of the unfounded belief in the wealth of Uganda.<sup>4</sup>

From the above analysis, the fact that Kenya railways was not a planned infrastructure in relation to capital formation comes out clearly. Consequently, at the time of its construction, there was no thought given to the economic development of Kenya and the role the railway was to play in this territory. The analysis also explains why the Kenya Railways even today consists of a single track line from Mombasa to the Uganda border with only a few branch lines. The branch line programme which took up a large percentage of the developmental efforts between 1920 and 1932 was an afterthought to make the railway an instrument for opening the white highlands to potential white settlement and little else. As a result, no rigorous economic surveys were made in advance, but rather, what was taken in trust was the potential of sparsely populated areas which could be used for white settlement. Of the 544 miles of the line built after 1920 for example, 397 passed through European areas, the remaining 147 through African areas. Of the later, a 61 mile section was part of the main line extension to Uganda and was not undertaken in the interest of Africans. A further 42 miles formed part of the Thika branch line extension, which could only reach the outer section of the European areas by traversing the African land between. Three other branch lines (Solai, Kitale and Thompsons Falls) passed exclusively through settled land and only

the Butere line was built with the African in mind, namely to tap cheap labour.<sup>5</sup>

These factors explain why the railway system in Kenya today is incoherent and why this has in turn rendered the related ancillary communication facilities in the country such as the roads and ports chaotic as well. The Kilindini Port at Mombasa for example was built at the terminal of the railway without putting into consideration whether that location would yield the maximum benefits for the development of the country.

Then the relationship between the railway and the road network defied logic too. Ideally, as Michael Crowder observes the road networks ought to be adjuncts, not competitors of the railway. But in west Africa he is stultified by the chaos of railway development and observes succinctly: "the railways were all directed to the coast, with no links between them, of different gauges so that a rationalization of the railway system of west Africa today is impossible"<sup>6</sup> The situation in East Africa was not any different.

In spite of all these shortcomings, the government has been faced with the financial responsibility of the maintenance of the lines since their completion in 1901.

we have seen that it was only after the completion of the railway that it occurred to the officials to develop Kenya economically. This is rather unique because development calls for foresight, not hindsight. In this particular case however, it was after the completion of the railway that the colonial authorities realised that the indigenous people could not immediately provide the passengers or the freight to transport. The administration of the day, giving no thought to the consequences of its actions on the Africans and the traditional sector, resolved its financial dilemma by encouraging European settlement on both sides of the railway.

In spite of such shortcomings, the railway has been seen by many as having provided the pre-requisite for modernization in Kenya. As a result of this, Kenya as a unit is seen by many as a product of the period since the Uganda railway was built from Mombasa to Kisumu. This is due to the fact that there is a more apparent correlation in both time and space between the railways and economic modernization in Kenya.

It is with this background in mind that we now examine the contribution of the railway to Kenya's economy. As table 3:1 illustrates, most of the rail freight traffic

affect the general well-being of every Kenyan.

TABLE 3:1

AGRICULTURAL, CONSTRUCTION AND MINING COMMODITIES  
TRANSPORTED BY RAIL

COMMODITY	IN '000 TONS						
	1955	1960	1965	1970	1975	1980	1985
Agricultural products	1,144	1,029	1,177	1,594	1,197	1,164	1,033
Agricultural Inputs	79	130	190	293	266	247	324
Agricultural Industrial products	713	846	942	356	408	416	443
Construction inputs	737	404	465	695	579	619	252
Mining products		314	556	746	741	846	642

Source: Compiled from Railway Annual Reports 1955-1985.

Table 3:1 indicates that rail freight traffic in both the agricultural and the construction sectors is quite significant. This is of special importance when we put into consideration the fact that agriculture is the mainstay of our country's economy. 80% of Kenyans live in

the rural areas and 60% are involved in agricultural production. The railway ensures that agricultural machinery are available to most Kenyans. Its use in the transportation of agricultural produce is also significant. Thus, apart from assisting in the modernization of the agricultural industry, railway services have eased unemployment problems. Most people are retained in the rural areas where they are involved in income generating farm and non-farm activities. Thus contributing to a reduction of rural-urban migration.

In a similar manner, the railway has over the years been used in the haulage of construction materials at cheap rates. These are normally bulky commodities whose transportation by other modes of transport could be cumbersome. The availability of these construction materials, apart from modernizing buildings in both the urban and rural areas have engaged both skilled and unskilled labour, thus reducing the unemployment problem.

From the foregoing, we can arrive at some conclusions:-

In the first place, the mobility of both people and goods has over the years been considerably stimulated by the availability and the operations of the railway. The railway was especially important before the

establishment of modern road transport. This is because during this period, the railway operated road transport services throughout East Africa. This included buses and lorries which were used to transport passengers and goods to and from the railway terminus. The continued provision of these road transport services necessitated and subsequently accelerated the construction of feeder roads to railway stations and to the rural areas throughout the region. These facilities continue to be of great importance in easing transportation problems even today. Consequently, the existence of these feeder roads, the railway itself and the railway marine services offered in Lake Victoria have over the years reduced distances greatly and made general travelling easier. Many people who live in towns have for example been able to travel frequently to their rural homes. This gives them an opportunity to develop many projects in the rural areas. They have therefore established commercial enterprises such as shops, butcheries and bars. The availability of cheap transport home has moreover enabled most families to keep up an interest in farming.

A study conducted by R.D. Grillo in 1973 on the relations of employees of the then East African Railways and Harbours for example revealed that those with an active interest constituted 63% of the sample. In analysing the data, it became clear that those with no apparent interest in land were younger in age than the

rest.<sup>7</sup> The railway has therefore over the years helped in maintaining a network of urban-rural relations with a positive effect on social stability. These networks are important channels for the flow of information. They also provide links along which a wide variety of national resources are passed on to the rural areas.

Consequently, to the rural areas, money, clothes and gifts of all kinds are taken to friends and relatives. From the rural areas, the employees get foodstuffs which help to keep expenses down. This has in turn enabled many to view the urban residence as temporary in that on retirement the employees expect to easily return to their rural areas.

It will be remembered that the completion of the railway opened up the hinterland of the East African region to the outside world. It in particular facilitated the settlement of Europeans in the white highlands. These Europeans introduced into Kenya the idea of cash crop farming, an innovation that continues to provide monetary incomes to the majority of the population who still live in the rural areas. It was also during this time that money as a form of accumulating wealth was introduced into Kenya. All these developments brought changes in the traditional lifestyles with modern form of exchange replacing the traditional economic activities. The



establishment of white settlement in the highlands for example necessitated the alienation of community land and the recruitment of African labour to till these farms. By 1962, some 3,000 settlers were occupying 26 million hectares of the best farmland, while 7 million Africans were forced to share 8 1/4 million hectares.<sup>8</sup> The introduction of this new mode of production consequently led to the destruction of the traditional society. This was especially the case in the area of the relations of the mass of people to the land. The social relations which surrounded the land in traditional society have been replaced by new forms of land tenure.

One of the most important changes that accompanied the construction of the railway and the introduction of a new mode of production was the transformation of labour into a commodity. It is from this time that labour was purchased in the labour market. Then the workers could use the money obtained to buy any desired commodity. It will be remembered that unskilled migrant labour was introduced into Kenya through the building of the railway. European technicians using advanced techniques used Indian Coolies who served as the first labourers in Kenya. Many of the Indian labourers who remained turned to trade and extended their commercial activities throughout the country. Their contribution to the national economy is still evident today such that the Indian community still dominates a large portion of the country's business sector.

The fact that the railway consists of a single track line from the coast to Lake Victoria with only a few branch lines has led to the concentration of development activities in the urban centres and in the agriculturally productive areas. This has in turn led to enclave development. In this regard development has tended to concentrate along the railway line. This is especially evident in Nairobi and the cash crop producing areas which were formerly occupied by European settlers. This situation is further reflected in the ratio of urban to rural incomes which is quite often in the ratio of 4:1.<sup>9</sup> Benefits of economic growth have therefore been unequally distributed. Bigsten in 1981 for example stated that average per capita incomes in Nairobi were more than 8 times as large as the average for the rest of the country put together. He further showed there to be large inequalities between other regions of the country with central, coast and Rift Valley provinces enjoying far larger incomes than the Eastern, North Eastern, Nyanza and Western Provinces.<sup>10</sup>

This enclave development is a clear manifestation of class contradictions which prevail within the country today and whose origins can be traced from the colonial period. Even after independence however, the government has normally tended to continue development activities on the same lines initiated by the colonial government.<sup>11</sup>

its policies have therefore continued to locate development and social amenities to the convenience of the dominant class. Consequently development has continued to be concentrated in the urban areas and in the agriculturally productive areas where direct benefits accrue to this class.

### THE RAILWAY AND URBANISATION

We have seen that the construction of the Uganda railway was intended to facilitate a reliable and regular contact with Uganda, the ultimate focus of British Colonial interests. Nairobi, the capital of Kenya came into existence by virtue of this railway. At the time it was established, Nairobi was therefore more important to the British than the territory around it, since it was the railway headquarters on the way to Uganda.

Nairobi is therefore a railway town in origin. It grew from a construction camp and later a maintenance point, half way between Mombasa and Lake Victoria, at the start of the difficult section across the highlands. The choice of Nairobi as the headquarters of the railway administration and the future capital of Kenya was however a controversial one. The plain on which the town was built was swampy and in the rainy season, difficult to drain. Fresh water supply was poor. As the following passage illustrates there were numerous difficulties to be

faced in establishing the present Kenyan Capital.

There was an immense amount of work to be done in converting an absolutely bare plain, 327 miles from the nearest place where even a nail could be purchased, into a busy railway centre. Roads and bridges had to be constructed, houses and workshops built, turnables and station quarters erected and water supply laid on and a thousand and one things done which go to the making of a railway township. Wonderfully soon however, the nucleus of the present town began to take shape and a thriving bazaar sprang into existence with a mushroom like growth. In this however, a case or two of plague broke out before very long, so I gave the natives and Indians who inhabited it an hours notice to clear out, and on my own responsibility burned the whole place to the ground.<sup>2</sup>

In spite of constant criticism, Nairobi was by 1901, a town of 8,000 inhabitants and by 1906 the population had increased to 11,500.<sup>13</sup> The important point, however, is that the railway was responsible for the very existence of Nairobi and that the selection of the actual site was based solely on railway considerations, namely to make it the railways headquarters.

By 1900 the railway, government, administrative and trading concerns were already established in Nairobi.

In many respects, it was pure chance that Nairobi should have been chosen as it was. From the British point of view, it was simply inoperative to rule the vast areas

of Kenya from Zanzibar or Mombasa. The logistics of communication were such that some centre had to be established roughly in the middle of the country. But there is no reason to suppose that it could not have been located at Naivasha, or Nakuru or elsewhere. But once the railway headquarters was established, Nairobi also became the military headquarters, the base from which "pacification" campaigns were waged. The administration moved its offices from Mombasa in 1905 and the branch railway lines which were built in the 1920s ensured that Nairobi became the main distribution point for exports. Nairobi then rapidly grew to be the centre for the spread of modernization and the central link between the country and the outside world. This link has particularly become relevant in the post independence era especially with the development of the Jomo Kenyatta International Airport and the International Satellite Communication System.

At a very early state in its development, Nairobi therefore assumed a wide variety of functions. The following table illustrates the diversity and importance of these functions relative to Kenya as a whole.

TABLE 3:2

Reported Employment in Nairobi and Kenya as a whole,  
(1963)

	Nairobi '000	%	Kenya '000	%	Nairobi as % of Kenya
Agriculture & Forestry	2.3	2.1	219.7	41.0	1.0
Mining & Quarrying	0.5	0.5	3.1	0.6	16.1
Manufacturing and repairs	14.2	12.9	40.7	7.6	34.8
Building & Construction	5.1	4.6	10.4	2.0	49.0
Electric Light, power & water	1.0	0.9	2.4	0.4	41.7
Total "Industry"	20.8	18.9	56.6	10.6	36.7
Commerce	21.8	19.8	42.0	7.9	51.9
Transport & Communications	4.7	4.3	16.7	3.1	28.1
Other Services	19.5	17.7	42.8	8.0	45.5
Public Services (All except Railway)	31.2	28.3	133.2	24.8	23.4
East African Railways & Harbours	9.8	8.9	24.1	4.5	40.6
TOTAL	110.1	100.0	535.1	100.0	20.6

Source: Statistical Abstract, 1964.

Table 3:2 illustrates that the public services, excluding the railway are the largest single employment group in the city accounting for 28.3% of Nairobi's total employment. The second largest employment group is the commercial sector, accounting for 19.8% of Nairobi's total employment (compared to 7.9% for Kenya as a whole). Over 50% of national employment in this sector is concentrated in Nairobi. The manufacture and repair sector alone account for 12.9% of Nairobi's total employment and 34.8% of total national employment in this sector.

The most striking conclusion to emerge from the table is the overwhelming importance of Nairobi in every aspect of Kenya's economic life, with the exception of agriculture and forestry and to a lesser extent, mining and quarrying.

An analysis of Nairobi's and Kenya's industrial structure by 1963 shows that Nairobi was the only centre in Kenya which possessed important manufacturing establishments.

But Nairobi's Industrial dominance was far greater than that. In fact, more than 63% of the total number of establishments in Kenya were located in Nairobi including

such industries as confectionary, clothing, footwear, furniture and fixtures, printing and publishing, tanning and leather goods, rubber products, glass and glass products, electrical machinery and motor vehicles.

Employment was similarly concentrated in Nairobi. In all the above industries, over 50% of the total labour force was employed in Nairobi (with the exception of footwear, miscellaneous chemicals and metal product sectors). Overall, Nairobi contained 44.0% of manufacturing establishments employing over five persons and accounted for 41.7% of the total Kenyan Industrial labour force. Nairobi also produced 47.6% of Kenya's total value added in the manufacturing sector.

Nairobi has continued to grow over the years. Between 1914 and 1943 for example, it more than doubled its population, then doubled it again in the next ten years. Between 1948 and 1962, the population increased by over 15% and the same rate of increase has continued since independence.

The growth of satellite towns around Nairobi such as Thika, Ruiru, Kiambu, Limuru and Athi River has greatly been determined by closeness to Nairobi as a result of railway connection. Not only has Nairobi availed a large market and services rendered by the financial and



administrative institutions, but the availability of railways means cheap means of transport especially for bulky goods required in the operation of industries set up in these towns.

Moreover, most towns in Kenya have tended to develop at some point along the railway. A total of fifty towns in Kenya are served by the railway. This could be explained by the fact that rail transport was the earliest mode of modern transportation in Kenya. In this regard, development over the years tended to take place along both sides of the line since this ensured accessibility to other towns, sources of raw materials for the industries as well as accessibility to markets for the finished products.

For example, although Mombasa existed before 1896, it was only after the British took over from the Portuguese that the town attained a new shape and expanded rapidly. This rapid expansion was mainly accelerated by the construction of the Kilindini Harbour whose construction was made imperative by the very existence of the railway. The completion of this harbour was followed by purchasing of large areas around the harbour for a railway station and workers houses. More land was also purchased and developed for port and industrial

97

purposes adjacent to Kilindini harbour. Consequently, Mombasa town developed along the main transportation routes which enabled easy communication facilities and associated services.

Nakuru was an early depot at the foot of the second main climb of the railway system primarily as a result of the establishment of modern farming in the districts near it, but also due to the growth of agricultural processing industries to serve the European farmers in the white highlands.

Kisumu was the original terminus and transshipment point for the railway's Lake Marine Services. Over the years, Kisumu has been the busiest port on Lake Victoria. Both Nakuru and Kisumu were greatly assisted in their development as regional centres by their strategic positions on the rail transport network. Although this may no longer be significant due to the improvement of road and air transport, its past importance has greatly influenced the present pattern of the development of these towns.

It might be difficult for us to analyse all the towns whose roots can be traced from the railway. Nonetheless, the majority of them emerged and developed as a result of direct or indirect connection with railway as

a means of transportation.

### THE RAILWAYS AND AGRICULTURE

Since the construction of the railway in 1899, agriculture has been the backbone of Kenya's economy. It is a sector which has mainly been geared to the production of raw materials and foodstuffs for the world market. These exports are highly concentrated upon a few items such as coffee, tea, sisal and pyrethrum. As we shall see in this section this state of affairs can largely be attributed to the railway.

It will be remembered that initially when the engineers came to Mombasa in 1896 to build the Uganda Railway, Kenya was merely a tract of land which had to be crossed to reach Uganda rather than a country for which the railway was needed. It however soon became apparent that if the line were not to be a severe financial liability, traffic had to be generated along much of its length. This consideration led to the encouragement of European settlers in what later came to be known as the "white Highlands".

Large areas of land were therefore offered at very cheap prices and by 1903, there were about 100 Europeans settled in Nairobi. The East African Land

Acquisition Order in Council of 1901 had authorised the Commissioner to sell, grant, lease or otherwise dispose of land but these regulations were revised by Sir Charles Eliot (Commissioner for East African Protectorate 1900-4) to provide an effective stimulant for European migration. Eliot realised the importance of the South African migration, and immigrants from that area began arriving in relatively huge numbers in 1904. This was partly due to the political uncertainties following the Boer war. European immigrants also came from Australia, New Zealand and Canada in the expectation that East Africa would eventually become a self-governing white dominion. The settlement was largely dependent on the existence of the railway. Thus, Charles Eliot reported that, "the importance, and one may say, the political existence of East Africa is due to this line (railway) without which the highlands could not be utilised ... at present, it does not so much open up the best districts as it affords a series of points from which they are easily accessible."<sup>14</sup>

There is little evidence to support the notion that the British intended to settle in Kenya before the late 19th century. However, given the need to justify the railway and to increase revenue, it was decided to encourage European settlement in Kenya. European settlers were therefore encouraged in order to justify the railroad and

at the same time to increase revenue. This inturn led to the introduction of cash crops, establishment of agricultural processing industries and the establishment of the social structure which is prevalent in Kenya today. Above all, this led to the integration of the Kenyan economy to the world capitalist system where everything is produced with the market in mind and with the aim of attaining maximum profits. Evidence from interviews conducted and from the railway records also indicate that the railway services have over the years continued to assist in the development of agriculture. (Table 3:3)

TABLE 3:3LIST OF PRINCIPLE COMMODITIES TRANSPORTED BY RAIL


---

Bitumen	Packing Materials
Cattle Cake	Paper
Canned fruit & Fruit pulp	Pipes & Fittings
Cement	Pyrethrum
Chemicals	Salt and rock
Coffee	Salt
Cotton	Scrap Metal
Dairy Produce	Sisal and sisal
Containers	waste
Fibres (Other than sisal)	Soap
Firewood	Soda Products
Flourspar	Stone
Grains	Sugar
Gunny Jute	Tea
Hardware	Textiles
Hides & Skins	Timber
Iron and Steel	Tin, tinplate and oil
Lime and Limestone	wattle bark and extract
Machinery, agriculture	Motor vehicles
Manures and Fertilizers	Molasses
Meat products	Oils (Other than vegetable)
Oils (Vegetable)	Oil Seeds

---

Source: Railway Annual Reports.

Table 3:3 indicates a list of commodities transported by the railway over the years. Out of 41 commodities, 26 of them are agricultural products and inputs. This shows the significant role of agriculture as a major source of rail freight traffic.

When compared to the total transport volume by air and sea, the railway appears to be a popular mode of transport for freight traffic rather than passengers. In contrast, passenger traffic is more important for the airways than for the railways.

TABLE 3:4

TRAFFIC CARRIED 1976 - 1985

Passenger Traffic	Unit '000	1977	1978	1979	1981	1983	1985
Rail		1,373	1,575	1,916	2,534	2,435	1,920
Air		2,410	3,633	3,906	4,115	4,355	5,887
Ship		1,038	1,791	247	372	3,166	5,615
<u>Freight Traffic</u>							
Rail		4,140	4,192	4,189	4,714	4,188	3,324
Air		2,137	4,951	567	1,511	1,551	1,932
Ship		5,854	6,075	5,931	8,435	6,484	6,315

Source: Statistical Abstracts 1976 - 1986

Freight traffic that accrues to the airways may be attributed to its very nature whereby there is limited space for luggage. The passengers therefore normally send their luggage by rail or by water.

On the side of freight traffic, the rail and water transport are both crucial. The difference however lies in the fact that the ships operate world wide and finally deliver the goods to the Kilindini Harbour which are transported to the hinterland by either rail or road transport. The railway operates from within and is therefore more important to the general public. It enables the goods delivered by water from abroad to reach the hinterland at cheap rates. The railway is also accessible to the general population unlike the air or water transport which mainly serve the elites who are capable of moving here and there at expensive rates.

Apart from providing freight services for agricultural produce for internal distribution and for export, the railway has also played an important role in transporting agricultural inputs such as fertilizers, manures and agricultural machinery. The corporation's major challenge over the years has been to serve the nation through providing cheap service that meets people's demands, especially the private farmer in search of



profits.

In bids to meet the "peoples" demands, the railways has been supplying wagons and locomotives for direct ship to wagon loading. This avoids the warehousing aspect and this in turn benefits the farmers since the charges are much less. An example of this occurred between September and October 1989 when within a period of 30 days, five ships docked at Kilindini and discharged 38,000 tonnes of fertilizer from four European nations and America. Operating on direct ship to wagon loading, Kenya railways managed to load and ferry 95% of this tonnage within a period of 30 days. 35,000 tonnes of this fertilizer was for the Kenya Tea Development Authority and the other 3,000 tonnes for a USAID project.<sup>15</sup>

Kenya Railways Corporate Plan 1987/93 states that with the continuing increase of competition from road transport, the railways competitive advantage has generally relied on the transportation of large, regular consignments of bulk homogeneous commodities over long distances (at least 150 km). Most of these bulk homogeneous commodities come from agricultural produce and inputs. Moreover, in a recent market survey conducted by the railways and which aimed at comparing rail tariffs with those of the road services, it was found that:

1. "Kenya Railways tariffs are significantly below competing road rates.
2. Kenya Railways price advantage was smaller for non-bulk commodities and non-existent for many short hauls.
3. The inferior quality of service offered by rail results in customers expecting some price discounts."<sup>16</sup>

Hence, Railway transport costs have to be kept low to match the low quality service and so to attract foreign investments and promote the Kenyan private entrepreneur. This has been possible since the colonial days through the imposition of low tariff rates on rail transport. This policy continues to be upheld by the government. The 1989-93 development plan in regard to this for example states that:

"The Corporation (railways) is required as a matter of policy to assist in the haulage of strategic commodities such as imports of food and agricultural inputs. This, coupled with tight control on railway tariffs, has contributed to the corporation being unable to break even and from time to time to require government subsidies and guarantees for loans especially for capital development"<sup>17</sup>

## THE RAILWAYS AND INDUSTRIALIZATION

The Europeans who constructed the railway never contemplated industrialization in Kenya since this would lead to competition against imported manufactured goods from British industries. Under the colonial economy, an imported item was cheaper and superior in quality than one locally made. To a large extent this situation extended into the independent Kenya, leading to poor terms of trade. It was extended to the railway sector itself such that, over the years, the railway authorities have had to import spare parts, locomotives and rolling stock from Britain. Much of this was financed through British loans whose interests were annually repatriated without re-investment of any kind from the proceeds.

All this unfavourable condition persists despite the fact that the Kenya Railways has the oldest and the largest workshops in the East African region. The workshops have 2,800 employees. The first workshops were built at Kilindini in 1895 by Sir George Whitehouse, the engineer who built the original Uganda Railway. When the railhead reached Nairobi in 1899, the first building of the permanent workshops was completed to house the boiler and erecting shops for steam locomotive repairs. With a floor area of some 74,690 sq. metres it is still in use as the main machine shop.

Today the Chief Mechanical Engineers workshops occupy over 50 hectares of land with 650,000 sq. metres of buildings comprising a foundry, Smithy, Saw mill, Machine Shop, diesel Locomotive, Heavy Repair Shop and various other shops covering such diverse activities as welding, painting, carriage and wagon work, joinery and many others. The construction of this workshop necessitated the construction of the railway training institute where mechanics, engineers, artisans, plumbers, electricians and the like undergo training. The Institute produces 200 granduands per year. After completion of their training these people are free to go back to railway employment or to be employed elsewhere. From the interviews, it came out clearly that most of these people have their own private garages and workshops where they work after office hours. Those who cannot afford establishing such facilities undertake private jobs from the general society and this subsidises their income. However, one would rightly argue that these employees resort to these activities due to poor utilization and frustrations in the railway workshop whose aim is to prevent the development of local manufacturing capacity. In a research conducted by Coughlin, for example, it was found that the output of the machine shops could be expanded by 42% while those of the foundries could be expanded by 106% by a more intensive use of the existing labour without any additional hours.<sup>18</sup> To explain

further, the railways workshop excess capacity exists due to lack of demand imposed by statute. The workshop cannot accept outside jobs due to legal limitations and these limitations are there to protect commercial importers or suppliers of articles which could be produced by the workshop. This presents a clear case of protection working against self-sufficiency.

In the same research, it was found that the foundries used only 23% of their capacity while the metal engineering used only 34% in 1983. That the railway workshops can be used to bring about real industrialisation in Kenya was clearly illustrated by the recently fabricated Nyayo Pioneer cars, where the railway foundries played a major role. The railway workshops have the manufacturing potential, the capacity and the capability of producing industrial items. They are capable of saving the much needed foreign currency which is used to import these items. For instance, the railway workshops have the capacity to cast and shape all but the largest sugar crusher rollers required in the country. However, millions of shillings continue to be spent on imported sugar crusher rollers, thus losing the opportunity to conserve foreign exchange. All this is done in order to enable the private enterprises which are mainly foreign owned to operate in a "favourable environment" with minimal competition from the government. In spite of all these shortfalls, the experience and training of workers at the railway workshop and at the

Railway Training Institute has had spill over effects to the rest of the society. It has contributed to the development of national engineering capabilities which have in turn contributed to a significant reservoir of industrial development potential capable of producing capital goods as well as making machine tools. Thus, as one looks at the issue of Kenya's industrial growth, it is clear that the basic facilities required for a capital goods industry are in the railway workshops. All that is needed is to put them into use. This does not contradict the recommendations of the IBRD to the effect that private investment, both local and foreign, had a major role to play in development.<sup>19</sup> However, failure to fully utilize the Kenya Railway facilities contributes to inhibiting the local mobilisation of resources for industrial development.

Having said that, we now turn to examine the growth of major industrial and commercial centres as a result of their location on the main railway routes. In this regard, Table 3:5 illustrates the dominance of Nairobi, Mombasa, Kisumu, Nakuru, Thika and Eldoret in Kenya's industrial distribution. These towns grew up as a result of the construction of the Uganda Railway. Moreover, Nairobi's influence is felt in the smaller manufacturing centres within the vicinity. These include Limuru and Athi River, industrial centres whose industrial

TABLE 3:2

Reported Employment in Nairobi and Kenya as a Whole.  
(1963)

	Nairobi '000	%	Kenya '000	%	Nairobi as % of Kenya
Agriculture & Forestry	2.3	2.1	219.7	41.0	1.0
Mining & Quarrying	0.5	0.5	3.1	0.6	16.1
Manufacturing and repairs	14.2	12.9	40.7	7.6	34.8
Building & Construction	5.1	4.6	10.4	2.0	49.0
Electric Light, power & Water	1.0	0.9	2.4	0.4	41.7
Total "Industry"	20.8	18.9	56.6	10.6	36.7
Commerce	21.8	19.8	42.0	7.9	51.9
Transport & Communications	4.7	4.3	16.7	3.1	28.1
Other Services	19.5	17.7	42.8	8.0	45.5
Public Services (All except Railway)	31.2	28.3	133.2	24.8	23.4
East African Railways & Harbours	9.8	8.9	24.1	4.5	40.6
TOTAL	110.1	100.0	535.1	100.0	20.6

Source: Statistical Abstract, 1964.

character is mainly a result of the availability of rail transport.

Thika for example is the most important of these satellites and has a relatively wide range of industrial enterprises. These include fruit and vegetable canning, bakery and confectionery products, textiles, sewn timber and wood products to mention but a few.

Athi River, 17 miles from Nairobi is dominated by the abattoir and factory of the Kenya Meat Commission and the Portland Cement factory. An abattoir is usually regarded as somewhat obnoxious and is therefore well sited to serve the Nairobi market. The railway also makes it possible to transport livestock and other products destined for outside markets.

The locations of the cement works is particularly interesting since it illustrates the utility of railway services in determining industrial location. The majority of the raw materials required for cement works comes from a deposit of crystalline limestone 60 miles away from the plant. 65% of these raw materials are transported by rail.

The glass products sector also provides an interesting example of the importance of the railway.



There are two factories producing glass products in Kenya which are both owned by the Madhvani group. One is located in Nairobi, the other in Mombasa. Sand which is the major raw material comes from Mombasa and about 30 tonnes are transported each day to the Nairobi plant. Although it would appear logical to concentrate production in the Mombasa plant i.e. near the source of the raw materials, the company has been able to operate in Nairobi because of the low rates charged on transport of raw materials and the availability of a wider market.

Even the agricultural related industries are mainly located in relation to the railway. These include the early European settlers initiatives in the agricultural processing industries such as Uplands and the Kenya Meat Commission. They were followed by the processing of other agricultural products such as coffee, tea, and sisal for export, and then by the manufacture of agricultural products such as bread, cheese and bacon for the domestic market. It is in this regard that Ann Seiderman says that "a major share of industrial output consists of first stage processing of agricultural products, largely for export, while the rest tend to be dominated by production of luxuries and semi-luxury items for high income groups, including last stage assembly and processing of imported materials and parts."

Similarly, towns such as Nakuru and Eldoret exhibit basically similar industrial pattern and related to the presence of the railway line.

In Nakuru, for example, 51% of total employment is concentrated in the meat, diary, grain, milling and miscellaneous goods and chemicals (pyrethrum extraction and related products) and sewn timber sectors. In Eldoret, 75% of the total employment is concentrated in the above sectors with the exclusion of miscellaneous chemical products and the inclusion of basic industrial chemicals (tanning extract and charcoal).

Such an industrial pattern is undoubtedly also a product of the agricultural and natural resource endowment of the Kenya highlands and the geographical position of Eldoret and Nakuru, but the presence of the railway was a major factor too.

The exploitation of Magadi Soda deposits over the years has been made possible by the railway. According to Kenya Railway corporate plan 1988/93 this is one area where the Corporation incurs heavy losses.<sup>21</sup> The Magadi Soda Company is a subsidiary of Imperial Chemical Industries of Britain and was initially established in 1911 by the British for soda extraction. Nicolla Swainson has shown how the establishment of Magadi Soda was done so

as to serve the needs of a British Industrial firm by expansion into a producing area in order to control the source of the Soda ash.<sup>22</sup> During this time firms involved in soda processing were constantly looking for new sources of raw soda as markets in the far East and Europe were expanding rapidly. The railway branch line to Magadi was built in 1914 to serve the interests of this company. The branch line passes through dry land where no development has taken place. Due to this, only the goods destined for the factory provide freight traffic for a distance of 130 km. The railway authorities argue that although the Corporation is incurring heavy losses, services to this company have to be retained since they are intended to satisfy wider economic and social objectives of the Kenyan population. The Corporation even signed an agreement with the government in April 1989 whereby the government agreed to pay compensation to the railway annually for the operation of these non-commercial services. The Magadi Soda Company has however survived over the years as an export oriented company - processing the local soda for export not out of the needs of the domestic economy but as a result of the needs of Imperial Chemical Industries as a transnational capable of investing in it for the sake of profits which are repatriated back home. Perhaps the main justification for Kenya being that it employs a huge army of labour and this contributes to tackling of unemployment problem.

CONCLUSION

The completion of the railway opened up the hinterland of the East African region to the outside world and subsequently facilitated European settlement in the Kenya highlands. The result of this was the introduction of cash crops, a monetary economy, wage labour, land alienation and the destruction of the traditional society.

The relationship between the development of the main towns in Kenya and the railway is clear. Similarly, although their development as the main industrial centres could be market or raw material based, the significance of the railway as a determinant is self-evident.

FOOTNOTES

1. East Africa Railways and Harbours. Annual Report 1961 p. 17.
2. Kenrail Newspaper. December 1989 p. 3.
3. M.F. Hill. The Permanent way: The Story of the Kenya and Uganda Railway. Second Edition, Nairobi 1961 p. 50.
4. Marjorie R. Dillee. British Policy in Kenya Colony. New York: Thomas Nelson and Sons. 1937 p. 16.
5. R.M.A. van Zwanenberg. An Economic History of Kenya and Uganda 1800 - 1970. London: MacMillan Press p. 263.
6. Michael Crowder. West Africa Under Colonial rule. London: 1968 p. 96.
7. R.D. Grillo, African Railwaymen: Solidarity and opposition in an East African Labour Force. London: Cambridge University Press, 1973 p. 20.

8. Tarsis B. Kabwegyere. Socio-Economic Transformation in East Africa: The growth of Trading Centres in Rural Kenya. University of Nairobi, Department of Sociology, September 1976 (Ph.D Essex).

9. Economic Survey. Nairobi: Government Printer 1988 p. 8.

10. Tony Killick. Papers on the Kenyan Economy: Performance, Problems and Policies. Nairobi: Heinemann Books 1981 p. 180.

11. Ibid p. 16

12. Ibid. p. 177

13. F.I. Nixon. Economic Integration and Industrial Location: An East African Case Study. London: Longman p. 51.

14. Ibid. p. 189.

15. Kenrail Newspaper November 1989 p. 6.
16. Kenya Railways' Corporate Plan 1987/88 - 1991/92 p. 12.
17. Kenya Government. Development Plan 1989-93  
Nairobi: Government Printer p. 16.
18. Peter Coughlin. "Converting Crisis to boom for Kenyan Foundries and Metal Engineering Industries: Technical Possibilities versus Political and Bureaucratic Obstacles". Institute for Development Studies, University of Nairobi, Working paper No. 410, 1984.
19. Ibid. p. 283.
20. D. Herman. "Some basic data for analysing the political economy of foreign investment in Kenya. Institute for development studies, University of Nairobi. Discussion paper No. 112, July 1971.
21. Ibid p. 12.
20. Nicola Swainson. The development of corporate capitalism in Kenya: 1918 - 1977. London: Heinmann Educational Books Ltd., 1980 p. 72.

## CHAPTER 4

### THE RAILWAYS IN KENYA'S SOCIAL DEVELOPMENT

#### INTRODUCTION

In Africa, perhaps more than elsewhere, public enterprises are considered to be important instruments of national development. The reason is aptly put by Goran Hyden when he states that:-

For the political leadership, the public enterprises proved a handy policy tool because it appeared to bring the resources of the country under public control for the benefit of the people at large. It provided governments with a demonstrable agent of economic development and employment creation. Furthermore, the parastatal institution had the advantage over the civil service department of being more flexible and potentially in a position to contribute to national capital formation.<sup>1</sup>

In Kenya, a similar attitude was expressed by President Moi who on December 12th 1989 stated that:-

The government has invested large sums of money in State Corporations with the hope that the organizations would create employment opportunities, increase investments and family incomes... The government expected them to contribute to the basic objective of improving the well-being of Kenyans.

The aim of this Chapter is to establish, via Kenya Railways as an example, the extent to which Hyden's and Moi's statements are true or untrue in Kenya. It is therefore within the context of Hyden's and Moi's



observations that we shall be examining how the operations and presence of the railway have contributed to social changes and the nature of these changes.

RAILWAYS AND COMMUNICATION

The importance of communication in any society is summarised for us by weiner when he states that:

when new roads and railways come into a society, powerful effects can usually be observed over time. Changes follow in the way people think and in things they value. Life changes. People begin to travel to work in nearby towns or to market. They see new things. Officials and entrepreneurs come into the village more often, a doctor may come where previously he refused, newspapers can be delivered. The young consider new alternatives in life that may shock the old. Manufactured products are brought in and put up for sale, displacing village crafts. Politicians come around seeking votes. Soon, a bus line will be formed. The drivers and the bus owners may become a new part of the elite. Nothing could be more revolutionary than communication.

The railway was the first mode of modern transportation in Kenya. This is due to the fact that before its construction, the only mode of transportation was by human caravans. This mainly involved few people and small headloads. With the construction of the railway, all this changed as the means of transporting masses of goods and people was now available. The most important social consequence out of this development was the stimulation of massive movement of people and goods.

TABLE 4:1PASSENGERS AND FREIGHT TRAFFIC FERRIED BY RAIL BETWEEN GIVEN DATES

year	Passengers in '000	Freight Traffic in '000 tons
1940	1,012	1,312
1945	2,838	3,515
1950	5,932	5,549
1955	5,588	5,680
1960	5,353	5,340
1965	4,252	5,396
1970	5,753	5,884
1975	3,386	6,922
1980	2,534	4,438

Source: Compiled from Railways Annual Reports 1940-1980

As Table 4:1 illustrates and putting into consideration the fact that the Kenya population between 1939 and the 1960s was quite low and that until the 1950s only the white settlers were involved in cash crop production which provided the major share of the rail freight traffic, the number of passengers and freight traffic carried by rail in these early days is quite significant.

There was an increase in both passenger and freight traffic between 1950 and 1970. This was as a result of the cooperation between the three East African Countries, initially through the colonial government and later through the East African Community. From 1963 in particular, the railway was operated under the auspices of the East African Community whose aim was to strengthen and regulate Industrial, Commercial and other relations of partner States. Earlier on in 1954, the Swynnerton Plan of 1954 had allowed Africans to engage in cash crop production. These developments led to increased production of cash crops which provided freight traffic for the railway. This also enabled the farmers to earn cash incomes beyond their subsistence needs. The railway therefore served a wider area and transit traffic was an important part of its total traffic.

The importance of the railway seems to have declined considerably from around 1975. This was partly as a result of strained relations between the three East African States which culminated in the break-up of the East African Community and the closure of the Kenya-Tanzania border. Conditions for transit traffic became unfavourable. This was accentuated by conflicting financial claims between Kenya railways and the Uganda Railways which also made cooperation between the two countries virtually impossible. The break-up of the East

African Community inevitably gave a huge advantage to road transportation in the transit market. The completion of the Kenya Pipeline also released a large fleet of road tankers which began to compete with the railways in the transportation of oil products on transit to Uganda. It was also after 1975 that air transport became a competitor with the railways in both passengers and goods.

TABLE 4:2

TOTAL NUMBER OF PASSENGERS AND FREIGHT TRAFFIC HANDLED BY  
RAIL AND AIR: 1950-1980

year	Railway		Airways	
	Passenger ('000)	Freight ('000)	Passenger	Freight
1950	5,932	4,339	-	-
1960	5,353	5,340	384	5
1970	5,753	5,884	1,119	157
1980	2,534	4,438	1,840	418

Source: Compiled from Statistical Abstracts 1950-1980

Table 4:2 shows that it was only in the 1970s that air transport became important as far as the number of people and freight traffic is concerned. The railway however was relatively important all through and remains an important mode in both transportation of passengers and goods.

The total number of people who landed and embarked at the port of Mombasa and the total tonnage of imports and exports handled at the port further indicates the importance of the railway (Table 4:3).

TABLE 4:3

PASSENGERS, IMPORTS AND EXPORTS HANDLED AT MOMBASA PORT  
BETWEEN 1940 - 1980

Year	Passengers		Imports in '000 tons	Exports in '000 tons
	Landed	(in '000) Embarked		
1940	-	-	605	657
1950	796	1,190	1,503	989
1960	2,150	1,192	1,600	993
1970	349	260	3,968	2,369
1980	96	5	3,798	1,969

Source: Compiled from Statistical Abstracts 1940-1980.

The table indicates that the number of passengers landing and embarking at the port of Mombasa was far much less than that transported by rail. This implies that the railways was not only important in the transportation of passengers to and from the coast but also for the general population. The introduction of the Carriage of Goods by Motor Prohibition Ordinance in 1932 moreover ensured that most of the cargo which landed at Mombasa was transported by rail upto 1960. The intention of this Ordinance was to restrict competition with the railway by controlling the few vehicles on certain roads running parallel to the railway. In this regard, rail transport was a monopoly and so long as this monopoly persisted, the demand for rail transport was unaffected by the availability of alternative forms of transportation. It was only in the mid 1960s and especially with the completion of the Mombasa Nairobi road in 1967 that road competition increased. By 1957 for example, of the 23,000km. of road in Kenya, only some 550km had tarmac or bituminous surface.<sup>4</sup> Most of these were however concentrated in the urban centres and in areas of white settlement. We have also seen that competition by air was minimal since the East African Airways was only formed in 1946 when the railway was already 50 years old.

Many railway officials strongly feel that even after the introduction of other modes of transportation,

the railway is still preferred by many since they regard it as the safest and cheapest means of travel in the country. This is perhaps due to its large capacity for carrying both passengers and goods. Infact, the railway system is the only mass transportation capable of coping with the almost ritual exodus of urban workers back to their rural origins during twin peaks of demand for passenger transport, namely, during Christmas and New Year holidays.

60% of those interviewed were of the opinion that the appalling carnage on Kenyan roads with thousands of motorists and passengers being killed every year has to a large extent increased the popularity of trains as a means of travel.

These observations, however, contradict available tangible evidence. Comparative figures between road and rail transport indicate that inspite of the increased road carnage, the number of people transported by rail was stagnant between 1950 and 1970, and has actually declined sharply since 1975 (Table 4:4).

TABLE 4:4

ROAD ACCIDENTS AND TRAIN PASSENGERS 1950 - 1985

Year	Number of Road Accidents	Number of Train Passengers
1950	4,007	5,932
1955	7,695	5,588
1960	4,102	5,353
1965	3,562	4,252
1970	6,603	5,753
1975	6,534	3,386
1980	6,162	2,534
1980	8,474	2,102

Source: Formulated from statistical abstracts 1950-1985 and Railway Annual Reports 1950-1985.

Year	Rank-ordered by total road accidents	Rank-ordered by No. of train passengers	Diff.	Diff <sup>2</sup>
1985	1	8	-7	49
1955	2	3	-1	1
1970	3	2	1	1
1975	4	6	-2	4
1980	5	7	-2	4
1960	6	4	2	4
1950	7	1	6	36
1965	8	5	3	9

-----  
sumd=2108



$$r_s = 1 - \frac{(b \cdot d^2)}{N(N^2 - 1)}$$

$$= \frac{1 - (b \times 108)}{8(64 - 1)}$$

$$= \frac{1 - 648}{504}$$

$$= \frac{1 - 81}{63}$$

$$= \frac{1 - 1.03}{63}$$

$$= -0.3$$

The above correlation reveals that there is a small negative relationship between the incidence of road accidents and the total number of train passengers. This is not to say that a rise in accidents leads to a decline in the number of railway passengers. The two are largely unrelated. But the more viable evidence from the above statistic is that inspite of higher rates of road accidents passengers still prefer road travel to rail travel. more so because of regularity of service, speed of travel, easier accessibility to homes and businesses and a large measure of relative comfort. While the high demand for faster and more regular mode of transport may

be the cause of rising road traffic and then of road accidents, the declining rail freight and passenger transport can be attributed to several factors. These include a defective management, one not characterised by a market oriented approach, general shortage of foreign exchange and the subsequent inability to provide adequate capacity among others. These will be examined in chapter 5 below.

### CONCLUSION

The importance of the railway in the mobilization of the population and goods movement in Kenya cannot be overemphasized. Availability of rail transport services for both agricultural inputs and outputs and for construction materials has also been of crucial importance. This is in particular reflected in the high agricultural yields and the presence of modern buildings in both the urban and the rural areas. These sectors have also absorbed a large proportion of the Kenyan population, thus reducing unemployment problems.

In spite of all this, the railway could have achieved much more. As we see in the following chapter, this has been hindered by a management which has not been characterised by a market oriented approach, a general shortage of foreign exchange and the subsequent inability to provide adequate capacity.

150

### Footnotes

1. Goran Hyden. No Shortcuts to Progress: African Development Management in Perspective. Nairobi: Heinemann Publishers 1983, p. 96.
2. Presidential Speech on Jamhuri Day, 12th December 1989 - Contained in the Standard Newspaper, December 13th 1989 p.6.
3. Myron Weiner. Modernization: The dynamics of growth. New York: Cambridge Mass, February 1966 p. 105.
4. Statistical Abstract 1955-57. Kenya - Nairobi Government Printer p.5.

## CHAPTER 5

### THE RAILWAYS IN A FUNCTIONAL DILEMMA

#### INTRODUCTION

In Chapter 3 and 4, an attempt was made to show the role played by the railways in Kenya's development. The image portrayed in our analysis is one whereby the Corporation is seen as having played an important role in the field of national development and in doing this, has attained relative success. While not disputing this finding, the question which would remain unanswered if we stopped there is whether the railways is capable of doing better than it has done so far in fulfilling and meeting its laid down objectives, namely "to provide a network of rail freight and passenger transport services and to operate commercially and earn sufficient revenue from the provision of its services to cover its operating costs, earn a return on its assets and provide funds for investments."<sup>1</sup>

Then, to what extent has the railways utilised the resources at its disposal in bids to meet these objectives? What constraints have affected the operation of this Corporation?

In answering these questions, it is important to remember that Kenya's economic policy in which the government commits itself to the institutions of private enterprise has its roots in the advice given to the incoming independent Kenyan government by the International Bank for Reconstruction and Development (IBRD) in 1962/63. The advice urged the incoming government to maintain a favourable climate for investments. Favourable in terms of maintaining the conditions which ensured that the foreign entrepreneur continued to reap huge profits from his products.

This policy somehow corresponded with the colonial policy which aimed at encouraging all other sectors to work for the well-being of the settler agricultural sector. The railway was used as a major instrument in operationalizing this commitment. Thus, between 1903 and 1921 for example, the railway was run as a part of the Kenyan administration and its surplus, a large percentage of which derived from the Uganda trade was used to subsidise Kenya's revenues. By 1921, the railway had established a rating policy to be applied differentially with a view to encourage particular producers of temperate climate foodstuffs, who were by 1919 predominantly of settler origin.<sup>2</sup>

As was the case during the colonial period, this policy has meant the continued imposition of low tariff rates which are highly controlled by the government in the post independence era. As we see in this Chapter, this has led to huge losses on some services offered by the corporation. Consequently, this has incapacitated the organization to an extent where it has made it impossible to render further quality services required for national development. Making a loss to the benefit of the private sector, however, seems to be what IBRD meant by the public sector contribution to national development. In the last section we will briefly examine the position of the railways in relation to the other infrastructural public enterprises which exist in Kenya. These include the Kenya Power and Lighting, the Kenya Posts and Telecommunications, the Kenya Pipeline Company, the Kenya Ports Authority, Kenya Airways, Kenatco and the Nyayo Bus Corporation. It is hoped that this analysis will enable us explain why some public enterprises in the infrastructural sector have continued to perform well while others continue to incur huge financial losses.

#### RESOURCE UTILIZATION AND PERFORMANCE

Nearly all the years, the freight policy has led to losses on the part of the railways (Table 5:1).

TABLE 5:1: RETURNS AND EXPENDITURE 1925-85 IN POUNDS  
MILLION

year	Earnings	Expenditure	Net
1925	1.12	2.4	- 1.28
1935	-	-	-
1945	4.11	4.61	- 0.50
1955	17.5	16.3	1.20
1965	23.73	25.34	- 1.61
1975	27.72	28.1	- 0.38
1985	1.16	1.27	- 0.11

Source: Railway's Annual Reports 1925-85

This trend started in the colonial period and continued into post independence period. Thus, total losses of £713,000 for example were estimated for 1926-31. This calculation had left out of account the whole of the capital costs involved which must have been very high since total railway loan repayments amounted to more than £800,000 per annum in the 1930s. The railway in fact stopped publishing these figures in the 1930s because of the criticism they aroused. Publication was however resumed in 1945 and still indicated that this organization had continued to incur huge losses.<sup>3</sup> In fact, throughout the years, it was only in 1984 that the railways realised a

profit of Rsns. 108 million<sup>4</sup>.

These losses by the railways were justified on the grounds that it assisted the private entrepreneur to make profits. Most of these private entrepreneurs are the transnational corporations<sup>5</sup> such as the Imperial Chemical Industries, B.A.T. and Coca Cola. In effect, the government has over the years aimed at keeping down costs for these enterprises through the maintenance of low transport costs. These include the pre-factory transport costs and the post-factory distribution costs. Due to this factor, the railway has had to turn in losses year after year. In fact it is in connection to this that J.O UDOJI states that:

There were some areas where the entrepreneurs were hesitant to venture, either because of attendant risks or because they involved huge capital investments with low rates of return. Utilities were also considered essential for the maintenance of minimum living standards as well as for facilitating the maintenance of law and order. This was now electricity, railways, water and airways came into being.<sup>6</sup>

This situation has not changed during the post independence period. Rather, what has changed is the political leadership but the objectives of establishing public utility corporations such as the railways remains basically the same.



Analytically, it appears that the corporation's financial problems are mainly a product of tight control of railway tariffs such that the organization cannot break even, thus always forcing the railways to resort to government subsidies and guarantees for loans especially for capital development. Infact inside information reveals that without compensation for non-commercial services Kenya Railways financial position would deteriorate disastrously. The Corporation cannot without support operate non-commercial activities on the scale of its existing passenger services and soda freight operations. Yet, these non-commercial services have continued to be provided by the railways over the years without any compensation from the government, thereby undermining the whole of the corporation's activities. This has subsequently led to high operational costs coupled by minimum returns whose effect is in itself disastrous.

The huge losses incurred by this corporation can also be partly attributed to mismanagement. The railways with 21,250 employees and an annual wage bill of Kshs. 700 million is for example among the largest employers in the country. The size of the work force of the railways has been seen by most people and in particular by the Presidential Commission of inquiry on Kenya Railway as one of the major constraints affecting the performance of this

staff

organization. Sources from the railways indicate that of the 21,250 employees, 5,000 are in excess of its manpower requirements. This large number of employees has pushed the corporation's labour costs too high. Infact it spends Kshs. 700 million annually, a figure equivalent to 60% of its gross revenue.<sup>7</sup> It is noteworthy that the labour force on the national railways of Zimbabwe whose system is comparable to Kenya Railways moves two and a half times more freight traffic with only 0.9 of the comparable labour force<sup>8</sup>. This corporation also has a large number of very old employees. As at April 1989, 127 employees had passed the age of 55 years and 2,297 were aged between 51 and 55 years. It is understood that there is a large number of staff whose skills became redundant when the Corporation converted from steam to diesel motive power. This is mismanagement due to compassionate retention of ineffective labour. This situation is however in line with government policy which requires the public enterprises to create employment opportunities thereby providing family incomes for as many people as possible.

The Short Term Action Programme which is a three year comprehensive restructuring programme aimed at introducing changes in the organizational structure, capital investments and technical assistance, the implementation of which is now being attempted aims at reducing 855 workers in the next two years. Cutting down

the workforce has however been difficult to implement as it contradicts the government's policy which views public enterprises as instruments of employment creation and also due to the fact that the Railways has one of the strongest unions in the country. The railway's management has therefore decided on gradual reduction on the number of staff over time through natural wastage. This means that persons who retire or quit employment are not replaced unless their skills are badly needed. Between June 1986 and 1987 for example, 315 employees left the Corporation's workforce in this way.

Cost cutting opportunities also exist in overtime work and the corporation proposes to reduce overtime under this restructuring programme. Senior Railway Officials say that most of the overtime payments at the moment have not enhanced productivity and were unnecessary. The measure is expected to reduce the bill on overtime from the current 14% of the wage bill to 7%.<sup>9</sup>

Besides inefficiency and high operational costs, another major problem facing the railways has been poor debt collection. As at May 1989, the Corporation was owed K£99.9 million by government ministries and parastatals. This has often forced the Corporation to resort to government subsidies and loans. The railways has been obliged to resort to the use of public resources which

grew from Kshs. 526 million in 1978 to Kshs. 989 million in 1982. The government waived a substantial amount of this debt to make it Kshs. 418 million. The corporation continued borrowing from the government thereafter and by 1984, indebtedness to the government had increased to Kshs. 896 million. It increased to Kshs. 1.3 billion in 1987. (Table 5:2)

TABLE 5:2: PUBLIC DEBT 1978 - 86

year	Net Debt in Million Shillings
1978	526
1982	989
1986	1.300

Source: Compiled from Railway Annual Reports  
1978-1986

This continued subsidizing of the corporation does not contribute to economic development since what is achieved in development is in turn taken away in form of taxation to support subsidy.

The Kenya Railways is also faced with the problem of shortage of foreign exchange. This has led to delays in the importation of spare parts and other essential requirements needed for the smooth running of the

corporation. In turn this has led to unavailability of physical stock (stock items) as a result of which the Corporation over the years has been unable to renew its rolling stock.

The effects of all this on the organization have been detrimental. Continued losses have ultimately incapacitated the corporation thereby making it impossible to render further national development. The following analysis of the situation of the locomotives which are the backbone of the railways' operations illustrates this more clearly.

In December 1989, Kenya Railways operated 3 different types of main line diesel electric locomotives and 4 different types of shunters. The total fleet at the time was 219 locomotives. Although the fleet size was 219 locomotives, 80 were stopped permanently awaiting spares, rehabilitation or major repairs, some of which may be beyond economical repair on account of age or obsolescence. As for freight and coaching stock, the economic life of wagons is 35 years. About 20% of these wagons are average while an average of 23% of the units are still of the four wheeled type, which are uneconomical to operate.

Apart from tank wagons, the corporation has specialised wagons dedicated to commodities such as

cement, livestock and Soda Ash. Of the coaching stock, 40% was over 33 years old and the proportion carrying passengers was slightly less than 25%.

This state of affairs is a clear testimony to the fact that the levels of locomotive availability leave a lot to be desired. Consequently, the corporation has been losing a substantial amount of revenue due to lack of motive power when required.

In spite of all this, the railways is still of crucial importance to the government. This is illustrated by the fact that the government has even agreed to pay the railways compensation for the services it provides at low costs. The services to be compensated include transportation of grains and fertilizers, soda, flourspar and passenger services. By 1991 for example, the government will be required to pay the corporation Rs. 655 million as compensation for the passenger train services.<sup>10</sup>

These passenger train services apart from fulfilling social objectives are also meant to maintain low labour costs as was the case during the colonial days. Thus, apart from illustrating the importance the government accords to the railways, such an agreement explains why the government is often quick to move in whenever there is a crisis in the railways. An example of

this was in 1988 when, as a result of a spate of train accidents the government quickly moved in and appointed a Presidential Committee to investigate on the causes of the accidents.

Though the corporation has maintained a low accident record over the years, in 1988 alone, it suffered 228 major running line accidents that cost the corporation Kshs. 50 million. Of these, 161 accidents were train derailments. About 63% of these derailments were caused by design deficiencies on two main types of bogies fitted to nearly a quarter of all the freight rolling stock of the corporation. The accident rate of the Kenya Railways during 1988 was 159 derailments or collisions for every one million freight wagons miles (FWM), which is roughly 30-100 times the typical accident ratio of most European railway systems, which have approximately two derailments per one million freight wagon miles. This means that one freight train in every 200 operated by the Kenya Railways in 1988 was involved in a derailment or a collision on the running lines.

The major causes of these train accidents in Kenya, at least during 1988 have been identified as mechanical failure on locomotives and rolling stock, train handling defects and crew error, defects on tracks and sleepers, failures and errors by staff other than train crews and miscellaneous causes such as obstruction by

persons, animals and vehicles and vandalism. Most of these accidents could therefore have been avoided if appropriate professionalism and other necessary measures were taken to rectify faulty situations.

The costs of the derailments of the British made wagons has also been a major burden on Kenya Railways not just because of the expenses involved in the repair of tracts and locomotives but also the costs associated with the blockage of the railway lines and consequent delays or even cancellations of both freight and passenger trains.

The British Standard Metric Gauge used in Kenya which is different from the metric gauge used in other countries and whose narrowness makes trains unstable and unable to travel safely at relative high speeds is said by some to be the cause of a number of derailments. The corporation however cannot shift to other wagons or metric gauge since it is subjected to inevitable dependence through her reliance on foreign financing and management advice from Britain.

The corporation for example is at the moment undergoing a major restructuring under a comprehensive programme known as the Short Term Action Programme which will introduce changes in the organizational structure, capital investments and technical assistance. This



programme, according to the Corporation's management is especially crucial as it has identified the equipment the corporation needs to rapidly improve operating efficiency and carrying capacity. Already, the corporation has purchased new diesel electric 94 class locomotives through commercial loans. Also included in the programme are plans for the rehabilitation and overhaul of locomotives, provision of spare parts and workshop equipment and to ensure effective maintenance of existing motive power and rolling stock. The programme also has a technical assistance component under which experts from Transmark Limited of Britain are to introduce skills to support implementation of the three year restructuring programme.

The reforms are supported by aid from the World Bank and the British Overseas Development Association (BODA). The railway authorities actually believe that a great deal of technological transfer is taking place between experts from Britain and the locals. However, the aid is consistent with the traditional role of finance capital in facilitating the flow of primary products and profits to the metropolis. The foreign loans and grants provided to the Kenya Railways through international agencies and governments are aimed at the development of infrastructure as an essential pre-requisite for foreign private investment. These types of projects are usually not undertaken by individual capitalists because they do

not offer sufficient profit earning capacity in the short term. Thus, these official loans and grants in the post independence period have generally been used not only to finance projects private capital is unwilling or is unable to finance, but have also had an important long term role as a catalyst to private investment by providing the necessary basic services and framework for capitalist expansion.

The picture which emerges from our study of the Kenya Railways is one where the government expects the organization to satisfy the contradictory demands in providing non-commercial services to meet special socio-economic obligations and at the same time operate commercially. This is the contradictory situation which has prevailed both during the colonial era and the post independence period. The Kenya Railways is therefore utilizing whatever revenue it obtains from commercial services to subsidize the farmers, industrialists and food consumers through non-commercial transportation of farm and industrial inputs and outputs. It will also be remembered that during the colonial era, the railway was used as an instrument of ensuring that the settler sector obtained maximum gains from its produce. The railway was actually used to increase the protection given to Kenyan producers through the so called country produce rates which imposed very low export and very high import

rates on locally produced articles like wheat, butter and sugar. This again imposed a tax on all consumers served by the railway for the benefit of a group of producers who, with the exception of Ugandan Sugar Producers, were almost exclusively located in the Kenya highlands. It is therefore clear that this rating structure ensured African consumers and producers paid rates which served to subsidize in particular the settler community of the Kenya highlands.

During the post independence period, the railways has actually been used to ensure that the private sector which is mainly dominated by a few local elites and the transnational corporations obtain huge benefits from their operations. It is supposed to ensure that the raw materials whose prices are determined in Europe and are subject to fluctuation in the world market are transported cheaply and safely to the western world. In turn, these western powers export to Kenya foodstuffs and agricultural inputs which are paid for by the foreign exchange earned from the sale of this local produce. The railways in Kenya has therefore continued to be operated mainly for the benefit of metropolitan investors and a few local elites. In this sense, it can generally be said that Kenya railways has contributed to widening the gap in the Kenyan social structure with a few very wealthy people at the top of the structure while the majority are poverty-stricken and are at the bottom of the ladder. In this regard, the

railway has essentially contributed to unbalanced social development.

The problem becomes even more complex when the profits accrued to these foreign entrepreneurs are repatriated back home. Likewise the profits which accrue to the few elites are used to buy luxurious items imported from abroad. In the final analysis, the railways has hardly been a worthwhile business undertaking. However, the objectives of the corporation have recently been restated in part as follows:-

Kenya Railways Corporation should operate commercially and earn sufficient revenue from the provision of its services to cover its operating costs, earn a return on its assets and provide funds for investment. "

This statement corresponds to the ~~general~~ general expectations of public enterprises, namely, to operate like business concerns where commercial gains are the norm. In the case of the railways however, the key rationale for state participation over the years has been the assumed interest that the state has had in the socio-economic well-being of Kenyans. Once again, the assumption has been that the provision of cheap means of transport would ensure low production costs for the private entrepreneur in which case he would charge the general population less for his produce. The requirements of the

general population would therefore be readily available and at low prices. While this is not always the case, the assumption of the government is that the development which accrues from this organization is mainly oriented to the service of man. The participation by the government in the management of this corporation has meaning only if it can lead to the maximization of social benefits and consequently, economic growth. These social considerations include the alleviation of poverty, creation of more employment opportunities and the provision of basic services such as water, shelter, health, education, communication and electricity. Maybe Hans Kiaus had all this in mind when he stated that:

Governments have taken over the responsibility to enhance and protect the economies of their countries so as to improve the income situation of the population. This has meant also providing the infrastructure as a basic condition for economic activity which includes not only road construction but also utilities and communication structure of the country.<sup>12</sup>.

#### PUBLIC ENTERPRISES IN THE INFRASTRUCTURAL SECTOR

The use of public enterprises in the infrastructural sector raises some basic questions about policy goals. Perhaps the biggest problem is the variance of the view that public enterprises should maximize profits while some of them are simultaneously geared to providing services at marginal or nominal prices. This

problem emanates from the erroneous assumption that all public enterprises encounter identical market conditions.

To correct this erroneous assumption it is important that we compare the market situations of the eight infrastructural public enterprises in Kenya. These infrastructural corporations face different market situations which in turn dictate different strategies on the part of the government.

TABLE 5:3: CLASSIFICATION OF PUBLIC ENTERPRISES BY MARKET CONDITIONS

Monopoly Service	Rate of Expansion	
	Rapid	Slow
YES	KPL KP & T.	KPC KPC
NO		KENATCO KA, KR, NYAYO BUSES

Table 5:3 shows two factors which are important in the choice of pricing policies for these enterprises. The first factor which differentiates these enterprises is whether the service in question is a monopoly. The second factor is whether the demand is growing rapidly. Some of the enterprises have reached maturity, while others can expect rapid growth in the foreseeable future.

This classification yields a matrix with four cells. All of the firms fall into 3 of the cells. This is not an accident. The empty cell is that for enterprises which are not natural monopolies, but for which rapid growth is essential. There are no such public enterprises in Kenya. Where a public enterprise provides a service which is not a monopoly even a rapidly growing market does not necessarily lead to a rise in demand for its services. This is because such non-monopoly markets in Kenya are open to competition from private firms and other public corporations in the same trade. This is in conformity with the government's economic policy contained in Sessional Paper No. 10 of 1965 where the government commits itself to the institutions of private enterprise. This policy has repeatedly been emphasized in Kenya's development plans. The 1979-83 Development Plan for example states that;

The government is committed to a mixed economy of private and government enterprises in the

manufacturing sector. However, heavy reliance will be placed on private enterprises including investment from abroad. Foreign enterprises will be welcomed and will be assured the possibility of adequate repatriation of profits <sup>13</sup>

There are common features in the performance of public enterprises in each of the cells. The first cell contains those firms which have monopolies in sectors in which demand is growing fast. Kenya, like most developing countries, desires that strategic enterprises should be in the public sector. The key goal of the government has therefore been to ensure their access to capital, so that their expansion can keep pace with demand. Consequently, the government has over the years allowed the Kenya Power and Lighting and the Kenya Post and Telecommunications Corporations to charge prices high enough to generate funds to finance most of their expansion. A by-product of such a generous pricing policy has been sufficient liquidity. This has in turn enabled these enterprises to function relatively smoothly with no major operational problems.

That the above corporations have been allowed to charge prices high enough to generate funds to finance most of their expansion is evidenced by the fact that there have been frequent complaints about the use of high prices to finance expansion. In 1984 for example, the Public Law institute formally objected to a proposed electricity tariff increase which had been justified in



terms of generating revenue for reinvestment. In its complaint, the Public Law Institute claimed that the proposed tariff was "punitive" and undermined the governments' economic and development policies of alleviating poverty, improving the welfare of Kenyans and providing rural electrification. The Public Law Institute agreed that "the incidence of the proposed increase is disproportionately laid on the present in relation to future consumers."<sup>14</sup>

Another argument against the policy was that Kenya Power and Lighting Company still has some private share holders, including some foreigners, so that a policy which allows monopolistic prices and profits is questionable on distributional grounds. While these arguments have some merit, the alternative of competitive pricing and borrowing or government saving has not been attractive in the Kenyan context.<sup>15</sup>

The second cell contains those enterprises with a monopoly but no great need for expansion. The Kenya Pipeline Company and the Kenya Ports Authority fall into this category. With these enterprises, it is necessary to keep down to near average total costs. However, the Kenya Pipeline Company operates in the petroleum sector which is heavily taxed by the government. Due to this factor the Kenya Pipeline Company has been allowed monopolistically

high prices, serving in effect as a tax collector. This policy has in turn minimised risks for the company and has therefore caused no notable distortions. Due to all this, we find that although the Kenya Pipeline Company was initially given a very low equity base, the monopoly pricing policy has permitted it to gradually build equity.

The Kenya Ports Authority is different from the Kenya Pipeline Company in that it was already physically complete at the time it was organised. This Corporation was however given a sound financial base from the start. This combined with the fact that the corporation was allowed monopolistic prices and profits, has enabled the Kenya Ports Authority to perform relatively well.

Finally, the last cell includes those public enterprises which operate in a competitive environment. The prices of these enterprises are set in competition with a vigorous private sector. The performance of these enterprises, while being important is not critical to the government. This is mainly due to the fact that the services they provide are available from others. Their presence is however required especially during crisis situations in the private sector. This was especially clearly demonstrated in 1986 when the Kenya Bus Services grounded their tools after which the government moved in and introduced the Nyayo Bus and the railway commuter service.

It is in these public enterprises which compete directly with the private firms where we find all the major problems, be they financial or operational. Consequently, the Kenya Railways, Kenatco and the Kenya Airways which fall into this cell have over the years been facing serious financial and operational problems and have therefore been a major concern to the policy makers. It would be too early to judge the fate of the Nyayo Bus Corporation since it is still being inaugurated. We therefore wait to see its performance once it is fully operational. The issue however becomes even more compounded by the fact that it is not really essential for the government to own some of these enterprises. As such, in times of financial stringency, there has been no reason as to why they should have priority in the allocation of the already scarce resources. Since they are not in the priority list and they still remain government owned public enterprises, these enterprises have landed in both financial and operating problems. Furthermore the government does not seem to appreciate the fact that the markets in which these enterprises operate are competitive. This is inspite of the fact that one of the defining features of a competitive industry is that prices are driven down to long-run average costs. As a result of this, there is usually no margin from which these enterprises can finance socially mandated, non-commercially oriented activities. Yet, as with the Kenya

Railways and Kenatco, the government has continued to mandate such activities. As such, unless the government realises that competitive enterprises have no ability to finance such activities and either refrains from mandating them or provides the necessary finance, poor performance is likely to continue in parastatals in competitive markets.

It would appear that the government has also not appreciated the fact that cutting investment budgets to sub-optimal levels has different consequences from cutting government consumption. This is due to the fact that with entrepreneurial type of activities, a shilling cut from the budget in terms of investment is not necessarily a shilling saved in the net public exchequer, since it may result in financial losses to the enterprises. This is all the more true where the enterprise is in a competitive market. As demonstrated by the case of the railways in Kenya, undercapitalization can cause higher operating costs which quickly leads to financial and operating problems. An enterprise with improper capital equipment may also be unable to attract customers, as has been the case with the Kenya Airways which competes with 37 other airlines.

Whether we are talking of the Kenya Railways, the Kenya Airways or Nyayo Buses, it is clear that what is

needed is for the government to better fill its conventional role of shareholder. As such, no heroic new controls on management are called for but rather, the converse is true. This has been demonstrated clearly by the case of the railways. We have seen that as a result of continued declining financial returns, the government in 1983 through a grant by the British Government which was channelled through the British Overseas Development Association (BODA) financed five studies in the areas of the organization structure, training requirements, motive power, central workshop and supplies. The five studies were undertaken by Coopers and Lybrand Associates and ICL and recommended, among other things, a major restructuring programme. The Corporation has therefore since 1987 been undergoing a major restructuring under a comprehensive programme known as the Short Term Action Programme.

The aim of this is to introduce changes in the organizational structure, capital investment and has a large component of technical assistance from Britain. This includes for example KShs. 125.6 million to improve the railways haulage freight services, which was channelled through the Overseas Development Administration (ODA). The importance of this programme has however been over emphasized. In a District Officers Conference held in 1987, it was for example stated that: "The Short Term Action Programme is a complex programme with the twin objectives of improving Kenya Railways Operational and

financial performance in the Short Term and establishing firm foundations for long term efficiency and effectiveness."16

In spite of all these undertakings aimed at improving the financial performance of the railways, things have continued to deteriorate. The performance even became so poor that by 1988, President Moi was obliged to appoint a Commission of Enquiry to look into the affairs of the Corporation. Inside information has it that things are not any better. Some say that things are actually worse off than before the Commission was appointed. This is attributed to the fact that the very Commissioners who conducted the enquiry were appointed as the Directors of the Corporation. The Executive Chairman of the Corporation is the very man who chaired the Commission. It has been alleged that some of these, for example Brown waweru, had been sacked by the same Corporation due to inefficiency. To the railway employees and to any layman, it is ridiculous for people whose services were terminated due to incompetence to be directors of the same Corporation. All this, combined with the fact that the promotion system which gave priority to railway employees has been chopped off has greatly affected the morale of the workers. We are however saying that in spite of the above efforts which have been undertaken in bids to improve the financial

performance of the railways, things have not changed. As such what is required are not major organizational reforms but changes in government policy. The fact is that Kenya Railways has been neglected and has been left to compete on an equal footing with a vigorous private transport sector which does not share the burden of infrastructure maintenance. The Corporation has also offered most services at subsidized rates. The result of all this and especially for the unfair competition and pricing policy has been huge losses, poor maintenance and average costs substantially higher than necessary. Recent efforts to impose user taxes on roads and control axle loadings are steps in the right direction. They should actually be pursued. In the meantime, poor financial performance by Kenya Railways is far from inevitable.

#### CONCLUSION

In this Chapter, we have argued that the railways though playing an important role in the socio-economic development of Kenya, faces certain constraints which hinder it from performing its duties effectively. These constraints include among others, tariff controls, over-staffing and mismanagement. This has led to high operational costs with minimum returns.

Political interest to maintain cheap railway services for farmers, manufacturers and passengers

ultimately affects the railways negatively. It also affects the development of the country. The fact that this public enterprise pursues contradictory management objectives means that it can't generate enough funds as would be channelled to further investment. Consequently, the endless subsidies it receives from the government deprives needy development projects in the country of funds.

The government however, continues to attach a lot of importance to this corporation since it is one of the most important tools of promoting and fulfilling her policies and interests. In the meantime, the hue and cry about public enterprises and especially the Kenya Railways continues since the system is designed in such a way that although benefitting passengers, most of the benefits go to a few elites and the transnational corporations who dominate the private sector. These in turn help the country create employment and save some foreign exchange earnings. Thus, Kenya railways can be said to indirectly contribute to the solution of Kenya's social and economic problems.

The history of public enterprises in the infrastructural sector in Kenya has generally been a success. Seven enterprises have operated while the eighth one is in its inaugural stages. Most of these enterprises have achieved impressive growth in services. This however



has been especially true among the monopolies. The government has allowed them to charge prices which permit them to finance large parts of their growth from internally generated funds. This policy has contributed to financial stability and liquidity as well as lack of operational problems.

The financial performance of those public enterprises which compete with the private sector such as the railways has however not been so impressive. These enterprises do not have the option of setting their prices at generous levels and are much more vulnerable to changes in market conditions. Moreover, they are much more vulnerable to risky policies chosen by the government. These policies have included the requirement that these enterprises should subsidize some of their customers. As a result, all these enterprises continue to experience financial and operating problems, with the Kenya Railways at the top of the list.

## Footnotes

1. Ibid p. 4 Kenya Railways Corporate plan 1987/88-1991/92.
2. E.A. Brett, Colonialism and Underdevelopment in East Africa. London and Nairobi: Heinemann Publishers, 1973 p. 92.
3. Ibid. p. 97.
4. Ibid p. 238 Kenya Railways annual report 1984/85.
5. Nicola Swainson, The Development of Corporate Capitalism in Kenya: 1918-1977. London: Heinman Educational Books Ltd. 1980 p. 72.
6. Ibid p. 238 A Rweyemamu and G. Hyden. A decade or public Administration in Africa.
7. Kenya Railways. Estimates of Revenue and Expenditure 1979-85.
8. World Bank: Kenya Transport Sector Memorandum. June 29, 1983 p. 59.

9. Ibid. p. 27.
10. Memorandum of Understanding between the government of Kenya and the Kenya Railways Corporation dated 4th April 1989 p. 7.
11. Ibid p. 28.
12. Hans Klaus. "Management Problems and Strategies of Parastatals in Kenyan Horticultural Industry" (Institute for Development Studies, University of Nairobi, Occasional Paper No. 39. 1982).
13. Kenya Government. Development Plan 1979-1983. Nairobi: Government Printer, 1979 p. 332.
14. Quoted in "Electricity: No to Hikes" Weekly Review, February 1984 p. 22.
15. See editorial, Weekly Review March 23, 1984.
16. Kenya Railways: The District Officers Conference Discussion Papers: 1987 p. 7.

## CHAPTER 6

### CONCLUSION

#### SUMMARY

Public enterprises are central to the development of many countries. This study looks at their role in Kenya and begins by emphasizing the fact that though these enterprises have been accepted by the government as important instruments of the country's economic development, they have often been subjects of concern to the government and the parliament. This is especially the case in matters pertaining to financial management and overall performance, which has often been found wanting. In this regard, we have argued that the problem of public enterprises in Kenya is inherent in the nature of Kenya's development strategy since the colonial times, namely, the development of the private sector with significant material support or at the expense of the public sector.

We have argued that public enterprises in Kenya are a product of the country's historical development since the early colonial period. Initially, their establishment was mainly due to the attempts by the colonial settlers to create a monopolistic protection over the production and marketing of agricultural products, the mainstay of the colonial economy. After the country achieved independence in 1963, Africans entered modern

agriculture but the structural pattern remained unchanged. Agriculture continued to be the mainstay of the newly independent country, and farms formerly occupied by settlers were taken over by a few well to do Africans, mainly those in the public service and in positions of leadership. The public enterprises established during colonialism continued to perform the same basic role as they did in the colonial period. Due to several factors, including the absence of indigeneous capital and lack of commercial knowledge on the part of Africans, public enterprises became the most important instruments of the government to promote economic development and to bring influential Africans within access of state resources for their own economic growth.

Public enterprises were therefore retained and new ones established after independence as a result of a mixture of political, economic and social objectives. These included the need to maintain a sound economy inherited from colonial rule; to transform the rest of the Kenyan economy from a subsistence to a market economy; and to encourage and facilitate African participation in the economy with the aim of creating and developing indigeneous private entrepreneurs.

various public enterprises existing in Kenya today can be classified in terms of the functions they perform as well as the form of management they have adopted. Classification in terms of functions would refer to such

categories as the marketing boards, the financial institutions, the public utilities, the development corporations and the cooperative societies. On the other hand, classification according to the form of management would produce categories like the departmental management, the public corporation, the state company and the operating contract.

In this thesis, the Kenya Railways has been our case study. We have argued that the completion of the railway opened up the hinterland of the East African region to the outside world. It also led to European settlement in the Kenya highlands, resulting in the introduction of cash crops, a monetary economy, wage labour, land alienation and the destruction of many aspects of the traditional society.

Another effect of the railways in Kenya relates to the development of the main towns which are also the main industrial centres in Kenya. Moreover, the importance of the railway in the mobilization of the population and in the movement of goods in Kenya cannot be over emphasized. Availability of rail transport services for both agricultural inputs and outputs and for construction materials has also been of crucial importance. This is in particular reflected in the higher agricultural yields and the presence of modern buildings in both the urban and the rural areas. These two sectors have also absorbed a

large proportion of the Kenyan working population, thus reducing unemployment problems.

Although the railway plays an important role in Kenya's socio-economic development, it faces certain constraints which hinder it from performing its duties effectively. These include tariff controls, over-staffing, mismanagement, over-bureaucratization and red tape and foreign exchange problems. These lead to high operational costs resulting in minimum returns or losses.

There is political interest to maintain low-cost railway services for farmers, manufacturers and passengers. This tends to affect the commercial goals of the railways negatively. In turn, it affects the development of the country due to cumulative inability to provide competitive services. Thus, this public enterprise effectively finds itself pursuing contradictory management objectives and failing to generate enough funds capable of being channeled to further investment. Consequently, it has had to rely on endless subsidies from the tax-payer, thus depriving other potential viable development projects of funds.

Nevertheless, the government would find it difficult to reduce the importance it attaches to this corporation since that affects the growth of the private sector, especially in the farming industry in which the majority of Kenyans have a stake. Moreover, besides

benefitting the passengers, most of the benefits go to a few elites and the transnational corporations who dominate the private sector. No doubt, these help in the creation of employment and saving or earning the country some foreign exchange. To this extent and to the extent that it benefits the farmers, Kenya Railways can be said to contribute to Kenya's social and economic development.

At one extreme, public enterprises in the infrastructural sector in Kenya seem to have generally been a success. Thus, seven enterprises in the sector have been operative, while the eighth one is in its inaugural stages. Generally, these enterprises have achieved impressive growth in services. This has been especially true in the monopolies where the government has allowed them to charge prices to enable them to finance the larger part of their growth from internally generated funds. This policy has contributed to financial stability and liquidity as well as lack of operational problems. However, it is doubtful whether this is a reflection of effective organization and management.

At the other extreme, if the Kenya Railways is representative enough, the financial performance of those public enterprises which compete with the private sector has been far from being so impressive. These enterprises do not have the option of setting their prices at generous levels and are much more vulnerable to changes in market conditions. Moreover, they are much more vulnerable to



risky policies chosen by the government. These policies have included the requirement that these enterprises should subsidize some of their customers. As a result, all these enterprises continue to experience endless financial and operating problems. The question is, what set of policy combination is capable of simultaneously promoting economic development and benefitting the public enterprise in the transport sector commercially?

### POLICY ALTERNATIVES

Several attempts have been made to try and make public enterprises viable. These include the establishment of various bodies such as the inspectorate of Statutory Boards and the Auditor General, Corporations. Although such measures have often been seen as solutions by the various probe teams and committees to the problems facing the public enterprises in Kenya, still there has been no significant improvement in the performance of these enterprises. Indeed, in spite of the introduction of the Short Term Action programme and the appointment of a presidential commission of inquiry, the railways continues to lose much money in the provision of services. As usual, this is attributed to inadequate budgetary control, poor management of services and the consequent decline in freight tonnage. This is blaming the effect, rather than the cause.

From this study of the Kenya Railways, it is

clear that since these controls have not helped, a more thorough look should be made at the nature of socio-economic benefits accruing to the private entrepreneur and the ordinary citizens in assessing the role of public enterprises. Thus, concentrating solely on the financial gains made by these enterprises does not portray the full picture of the significant role they play in development. In fact, although it has perpetually incurred huge financial losses, the Kenya Railways has been one of the strategic public enterprises in Kenya's development without which growth, especially in agriculture would have been difficult to realize. However, with improvements, much can be realised. This would involve the full utilization of the available facilities in Kenya Railways especially in the central workshops, the introduction of new technologies to improve customer taste for railway transportation, the use of merit in the recruitment and appointment of the management and the encouragement of greater management initiatives. All this might help to balance between Kenya Railway's role in development and the need for a more impressive commercial performance.

There has been the temptation to view wholesale privatization as a panacea for the ills of public enterprises. In most cases however, such is the product of ideology or simply blind faith on the efficiency of the private sector. In this study, the Kenya Railways has

been shown to be capable of performing quite well if only the major constraints are rectified. As such privatization is not a pre-requisite for improvements in Kenya Railways. This organization is after all crucial in the promotion of private investment. The railway is supposed to provide transport at highly subsidized rates to enable the private entrepreneurs accrue maximum benefits from their undertakings. It is unlikely that such would be possible if the railways was a private undertaking. The issue of the privatization of the railway is therefore not feasible in the near future. Perhaps the current practice of floating shares in successful public enterprises such as the Kenya Commercial Bank and the National Bank of Kenya can be used to inject greater accountability and flexibility in tariff arrangements with a view to providing more competitive services and earn a profit.

## RECOMMENDATIONS FOR FURTHER RESEARCH

Clearly, some of the issues we have raised in the study cry for more empirical data.

1. There is therefore a need for a similar study to this one but of a wider scope. Such a study would include several public enterprises preferably with different types of management.
2. There is also a need for a research to investigate the relationship between **professional** qualification, past experience of the managers, the quality of management and the performance of the respective public enterprises.
3. Research is further needed to investigate gender differences and women's roles in public enterprises.

Such research may have potential significance to the policy-makers within the government and in public enterprises in general.

## BIBLIOGRAPHY

- Amin, S.                    Neocolonialism in West Africa.  
Lagos: Penguin African Library,  
1973.
- Apter, D.E.                The Politics of Modernization.  
Chicago: The University of Chicago  
Press, 1965.
- Brett, E.A.                Colonialism and Underdevelopment in  
East Africa: The Politics of  
Change, 1919-1939.    Nairobi:  
Heinemann Publishers, 1973.
- Coombes, D.              State enterprise: Business or  
Politics? London: George Allen  
Arwin Limited, Museum Street,  
Ruskin House, 1971.
- Coughlin, P. &  
Ikiara, G.K.              Industrialization in Kenya: In  
Search of a Strategy.    Nairobi:  
Heinemann Publishers, 1988.
- Crowder, M.              West Africa Under Colonial Rule  
London: Cambridge University Press,  
1968.
- Dougherty, J.E.         Contending Theories of  
International Relations.    New  
York: Lippincott Company, 1971.
- Douglas, V.V.            Public Enterprises in Sweden.  
Liverpool University Press, 1959.
- Dilley, R.M.             British Policy in Kenya Colony.    New  
York: Thomas Nelson and Sons, 1937.
- Eisenstadt, S.N.         Modernization: Protest and Change.  
New Jersey: Prentice Hall, 1966.
- Hill, M.F.                The Permanent Way: The Story of the  
Kenya and Uganda Railway.    Nairobi:  
Longman Publishers, 1961.

- 173
- Friedmann, W.G.            Government Enterprise. Columbia: Columbia University Press, 1976.
- Frank, A.G.                Capitalism and Underdevelopment in Latin America: Historical Studies of Chile and Brazil. New York: New York Monthly Review Press, 1979.
- Frank, T.                  The Developing Nations: What Path to Modernization?. Chicago: University of Illinois, 1972.
- Grillo, R.D.              African Railwaymen: Solidarity and Opposition in an East African Labour Force. London: Cambridge University Press, 1973.
- Hanson, A.H.              Public Enterprises and Economic Development. London: Routledge and Kegan Paul Limited, 1959.
- Nationalization. London: George Allen and Arwin Limited, 1963.
- Hazzlewood, A. & Holtham G.            Aid and Inequality in Kenya. London: Croom Helm, 1976.
- Hyden, G.                 No Shortcuts to Progress: African Development Management in Perspective. Nairobi: Heinemann Publishers, 1983.
- Hoselitz, B.F.             Sociological Factors in Economic Development. Chicago: Chicago Free Press, 1960.
- Killick, T.                Papers on the Kenyan Economy: Performance, Problems and Policies. Nairobi: Heinemann Publishers, 1981.

- Leys, C.                    Politics and Change in Developing Countries: Studies in the theory and practice of development. London: Cambridge University Press, 1969.
- Marx, K.                    Capital: A Critical analysis of capitalist production. London: Swan Sonnenschein Lowse and Company, 1887.
- Neillis J.R.                Public Enterprises in Sub-Saharan Africa. World Bank Discussion Paper 1, 1986.
- Nixon, F.I.                Economic Intergration and Industrial Location: An East African Case Study. London: Longman Publishers, 1978.
- Norman, L.                An Introduction to the Sociology of Rural Development. London: Tavistock Publications Limited, 1977.
- Nov Alec.                 Efficiency Criteria for Nationalised Industries. London: Cambridge University Press, 1973.
- Pringie, P.                The Story of the Railway. London: Evans Brothers Limited, 1954.
- Rweyemamu, A. and Hyden G.                A Decade of Public Administration in Africa. Nairobi: East African Literature Bureau, 1975.
- Ramanadham, V.V.        Public Enterprise and the Developing world. London: Croom Helm, 1984.
- Rodney, W.                How Europe Underdeveloped Africa. Dar es Salaam: London and Tanzania Publishing House, 1972.

- Shirley, M.M. Managing State owned Public Enterprises. World Bank working Paper No. 77; Washington D.C, 1983.
- Swainson, N. The Development of Corporate Capitalism in Kenya 1918 - 1977. London: Heinemann Educational Books Limited, 1980.
- Smeiser, N. The Sociology of Economic Life. New Jersey: Prentice Hall, 1963.
- Social Change in the Industrial Revolution. London: Routledge and Kegan Paul, 1959.
- Weiner, M. Modernization: The Dynamics of Growth. New York: Cambridge Mass, 1966.
- Vinogradov, v. The Socialist Nationalization of Industry. Moscow: Progress Publishers, 1966.
- Zwanenberg, v. and King, A. An Economic History of Kenya and Uganda 1800-1970. London: Macmillan Press, 1975.

#### PERIODICALS

- Abramson, R. "Planning for Improved Performance and Organization Development in the East African Public Corporations". In Public Enterprise Quarterly Journal, vol. 1(1) 1980.



- Ahmed, Z.H. "The Foundry and Mechanical Workshop, Somalia." In Public Enterprise quarterly Journal, vol. 5(1) 1984.
- Alaya, S.H. "Some Thoughts on Productivity in Public Enterprises in Developing Countries". In Public Enterprise Quarterly Journal, vol. 5(4) 1985.
- Briones, L.M. "The Relationship of Public Enterprises with the National Government in the Phillipines." In Public Enterprise quarterly Journal, vol.3 (2) 1982.
- Kreacic, V. and Green P. "Public Enterprise Study: The Tanzanian Cigarette Company Limited." In Public Enterprise Quarterly Journal, vol. 5(2) 1985.
- Luke, D.F. "The Political Economy of An African Public Enterprise: A Longitudinal Case Study of the Administrative and Economic Operations of the Sierra Leone Port Organization." In Public Administration and Development Journal, Vol. 4 (2) 1984.
- Mathur, H.M. "Public Enterprise Management Treasury in Least Developed Countries of the Asia and Pacific Region". In Public Enterprise Quarterly Journal, vol. 5 (1) 1984.
- McHenry, Jr. D.G. "The Government vis Management Controversy: Ascribing responsibility for the failure of a Public Corporation in Nigeria." In the Journal for Public Administration and Development, vol. 4 (3) 1984.
- Mbowe, G.F. "Project Implementation and Control: A Critical Problem in Public Enterprise Management in Tanzania." In Public Enterprise Quarterly Journal, Vol. 5 (2) 1985.

Nawab, S.A. "The Evaluation of Public Enterprises: The Pakistan Signalling System." In Public Enterprise Quarterly Journal Vol. 5 (2) 1985.

Report on the "Elimination of Waste through Cost Effective Management in Public Enterprises in Developing Countries." In Public Enterprise Quarterly Journal, vol. 5 (4) 1985.

Report on the "Role of Public Enterprises in Regional Development in Developing Countries." In Public Enterprise Quarterly Journal vol. 5(4) 1985.

#### GOVERNMENT SOURCES AND OFFICIAL RECORDS

Government of Kenya. Sessional Paper No. 10 on African Socialism and its application to planning in Kenya. Nairobi: Government Printer, 1964.

Government of Kenya. Report of the Commission of Enquiry on the performance of State Corporations. Nairobi: Government Printer, 1979.

Government of Kenya. Report and Recommendations of the Working Party on Government Expenditure. Nairobi: Government Printer, 1982.

Government of Kenya. Economic Surveys: 1966-1987  
Nairobi: Government Printer.

Kenya Railways. Annual Reports 1922 - 1989.

-----  
Corporate Plan 1987/88-1991/92.

-----  
Memorandum of Understanding  
 Between the Government of Kenya and  
 the Kenya Railways Corporation  
 dated 4th April 1989.

-----  
Short Term Action Programme Report,  
 1988.

-----  
Estimates of Revenue and Expenditure  
1980 - 1988.

-----  
The District Officers Conference  
Discussion papers 1984-88.

#### NEWSPAPERS AND MAGAZINES

Daily Nation, Nairobi, August 1990

The Standard, Nairobi, December, 1989

Weekly Review, Nairobi, 1983, 1986 - 1990.

#### UNPUBLISHED SOURCES

- Atikoro, C.P. "The Role of Governments in Public Enterprises: A Case Study for the Uganda Advisory Board of Trade." Institute for Development Studies, University of Nairobi, Occasional Paper No. 39, 1982.
- Coughlin, P. "Converting Crisis to Boom for Kenya Foundries and Metal Engineering Industries: Technical Possibilities versus Political and Bureaucratic Obstacles." Institute for Development Studies, University of Nairobi, Working Paper No. 410, 1984.
- Gachuki, D.W. "Public Enterprises and Foreign Capital in Kenya: The Policy Environment. In the Role of Public Enterprises in Development in East Africa, Proceedings of a

Workshop 4th - 7th November 1981. Institute for Development Studies, University of Nairobi, Occasional Paper No. 39, 1982.

Heidermann, I. "Public Enterprises and Economic Sciences in Africa." In the role of Public Enterprises in Development in East Africa. Institute for Development Studies, University of Nairobi, Occasional Paper No. 39, 1982.

Herman, D. "Some Basic Data for Analysing the Political Economy of Foreign Investment in Kenya." Institute for Development Studies, University of Nairobi, Discussion Paper No. 112, 1971.

Kinyanjui, K. "Public Enterprises and the effects of the Ndegwa Report." Institute for Development Studies, University of Nairobi, Occasional Paper No. 39, 1982.

Oyugi, U.F. "Public Investment for Private Enterprise: A Study of the Role of Parastatals as an Action and Indicator of Social Change in Kenya." Institute for Development Studies, University of Nairobi, Occasional Paper No. 39, 1982).

Prewitt, K. Introductory Research Methodology: East African Applications. Institute for Development Studies, University of Nairobi, Occasional Paper No. 10

Report of the "Conference on Public Enterprises in Nigeria" held at the Institute of Administration, Zaria: Ahmadu Bello University, April 27th - 30th 1970.