ESRF Study on the Impact of Globalisation on East African Economies

Development of National Entrepreneurship in East Africa: The Case of Tourism and Petroleum Marketing Industry

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1. Introduction

The fundamental dilemma for poor countries participating in the global economy is that the relationship is asymmetrical or unequal in most of its key characteristics: e.g. the international division of labour in relation to trade, access to knowledge (technology), international political relations, etc.

One specific characteristic of the global economy is the concentration of business leadership, know-how and ownership in the more developed countries. The emphasis more countries place on the need for direct foreign investment in essence accepts that entrepreneurship in ke economic activities is more readily supplied by multinationals (MNCs) than domestic and indigenous entrepreneurs. MNCs are relied on to provide market innovations and serve as the catalyst for market transformations.

However, too much reliance of foreign entrepreneurship and foreign owned business carries the risk that nationals are left in a subsidiary relationship, essentially playing the role of employees in those tasks allocated to local workers by the MNC. The international firm will, of course, transfer skills to the local workforce, but the basic know-how, intellectual property and organisational capacity will remain with the international firm.

Successful development in East Asia has involved MNCs, but has also involved national firms developing to capacity to access, transfer and adapt technology to local conditions, and to engage in process and product innovation, that goes beyond merely transferring a cosmopolitan process into the local economy.

Moreover, it has been argued (e.g. Saeed, 1998) that domestic and indigenous entrepreneurs are likely to be more aware of local market gaps and the appropriate designs and technology required to meet local requirements.

In colonial East African economies, locally based business leadership came particularly from the ethnic minority communities. There have been positive developments since independence. Perhaps the most fundamental development has been the emergence of a class of successful African small businessmen in transport, trade, construction and services which may provide the pool of entrepreneurial talent required for long term success. A small-scale urban informal sector has developed which has also shown resilience and ingenuity in providing low-cost services and in providing income opportunities for the poor.

However, success has been less evident in large scale and technically more sophisticated activities. Both in the industrial sector and in sophisticated services (the financial sector, tourism, consultancy services, advertising), there is a continuing dependence on international firms.

This study starts from the initial premise that more effective participation in the global economy would be furthered by enhancing the role of national entrepreneurship. Without national entrepreneurial capacity, the indigenous population is trapped in the roles of "hewers of wood and drawers of water", irrespective of changes in the structure of trade. A study of the positioning of East Africa in the global economy

therefore should include an analysis of national entrepreneurship and its relation to foreign actors in the economy. The study will investigate the role of national entrepreneurs in relation to multinational business, including the factors that could make the relationship complementary rather than competitive.

For the purpose of the study, a classification system is adopted which identifies a number of different categories of business venture: multinationals, state owned enterprise, local non-indigenous business, indigenous owned business, subdivided between large firms and small scale and informal sector enterprises[1].

The study will work initially on a number of industrial cases studies, which will assess the role of these various actors and the inter-play between them. These studies in turn will be used as a basis for characterising the various strategies adopted by the governments of East Africa and the options for future policy. The first two cases studies are of petroleum distribution and tourism.

2. Theoretical Background

At this stage, only a brief mention is made of the theoretical background. The literature on entrepreneurship is enormous and many different theories have been put forward regarding the role of entrepreneurship in economic development. These range from debates about the role of religion in generating entrepreneurship and promoting the rise of capitalism, Marxian debates over the role of "national capital", the more recent theory of the "development state" which emphasises the entrepreneurial role of the State, and perhaps most famous the Schumpeterian theory.

Schumpeter portrayed entrepreneurs as the critical agents for economic change and development. The entrepreneur introduces new goods and services into the market, develops new methods of production, opens up new markets and sources of supply of raw materials, and pioneers new forms of business organization. In "follower" economies, national entrepreneurs might be expected to play a crucial role in adapting technologies to local needs and promoting structural changes, which alter the national position in the international division of labour.

The emphasis on the importance of entrepreneurship does not necessarily under-play the potential role of State intervention. Policies can influence the supply of entrepreneurs in the economy and the allocation of their resources, and public interventions can influence accessibility to resources and technology, and the operation of factor and product markets. Moreover, although this is currently downplayed in conventional policy discussions, the State itself can play a direct and active entrepreneurial role, as producer and financier.[2]

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[1] In this paper, non-indigenous local entrepreneurs refer to entrepreneurs of Asian and European decent who have citizenship of one of the East African countries. On the other hand indigenous entrepreneurs refers to Africans. Kilby (1993) argues that minority entrepreneurs usually have superior initial endowment of capital, knowledge of markets and technology and acquired traditions that help raise productivity.

[2] Interestingly in the colonial period in East Africa, there was a willingness to use State enterprise as a vehicle for the promotion of the structural change, most notably in Uganda, where under the two governors Sir John Hall and Sir Andrew Cohen a program of active industrialisation was pursued through two large State enterprises, the Uganda Development Corporation and the Uganda Electricity Board.

Comparative evidence suggests that the promotion of national entrepreneurship requires the State to strike a difficult balance in its relations with business. An effective capitalist system requires a state which provides an enabling environment for business and which on occasion intervenes actively to promote business, but which is able to maintain some autonomy and avoid capture by the business class. Relationships that are too close degenerate into rent seeking and crony capitalism. On the other hand, relationships that are too distant run the risk that the state will not see the promotion of business as an important goal, resulting in an over regulated or even hostile environment.

3. Varying East African approaches

Part of the study will review the alternative approaches adopted towards the promotion of national entrepreneurship in East Africa. At this stage, a broad sketch is offered, which summarises the evolution of approaches.

In Tanzania, prior to the Arusha Declaration (1967), the approach to entrepreneurship was pragmatic and eclectic. Government engaged in some investment through parastatals, energetically promoted the cooperatives as the main actor in rural trade, but also encouraged foreign investment and the minority communities to invest. In the two decades following the Arusha Declaration, the main thrust of Tanzanian policy was to emphasis parastatal investment (State Owned Enterprise), and to establish State owned monopolies in a number of key sectors (including finance and wholesale trade). However, foreign involvement was encouraged in joint ventures and the minority communities were encouraged to invest in the industrial sector in areas not designated as the exclusive preserve of State investment.

African business was promoted to some degree, particularly through the agency of the Small Industry Development Organisation (SIDO). Also, particularly when the economy got into difficulties in the later 1970s, there was a lively development of informal economic activities to meet needs the State sector was unable to satisfy. However, the "Leadership Code", which explicitly forbade leaders in the ruling party or the civil service from engaging in business, excluded the possibility of most of the educated elite engaging in business.

Under the reforms of the last decade and a half, Tanzanian policy has changed dramatically, with the State sector being dismantled through privatisation, with the larger firms being sold to foreign firms, and the government placing a good deal of emphasis on foreign investment promotion. In some sectors (e.g. the dynamic mining sector), this has resulted in a shift from domestic private investment to foreign ownership. Government has not done much to promote national private business. Indeed as SIDO was much more active in the pre-reform period than recently, and the State owned financial system was in certain cases a source of soft loans to the private sector, in could be argued that during the height of the socialist period as much was done to promote private national business as in the period of market reform.

Kenya presented a quite different model of business promotion. In Kenya, Sessional Paper No. 10, on African Socialism, played a similar ideological role to the Arusha Declaration in the 1960s. Both at the level of rhetoric and practice, the Kenyan

government promoted development through a market economy, in which the main vehicle of structural change was the effort to change the pattern of private ownership, to increase African participation. This was done both through land reform, which transferred large tracts of land form White farmers to African smallholders, by supporting African businesses and by actively encouraging the political and administrative elite to develop a financial stake in the business sector.

As a result, there were more instances of large-scale African business emerging in Kenya in the 1970s than in the other parts of East Africa. Nevertheless, in Coughlin made the following observation regarding Kenya, "Africans own very few medium or large sized manufacturing firms. This has seriously impeded an identification of interests between local industrialists and the political circles. As a result, the government's economic policies and bureaucratic decisions are frequently detrimental to the nations long term industrialization".

In the case of Uganda, there was substantial continuity from the colonial period to the 1960s, when under the first Obote regime, the inherited vehicles of State promotion, the UDC and the UEB, where used actively to promote development and structural change, alongside the acceptance of the active role of large-scale Asian owned business (notably the Madvahni and Mehta business groups.) There was an abrupt change under Amin, when the expulsion of the Asians and chaotic management of State activities led to a general deterioration of all sectors. Under Museveni, the Asian business community has been encouraged to return and foreign investment has been actively promoted. As a result of privatization and liberal market policies, State owned economic activity is less important now in Uganda than it was at the end of the colonial period.

Uganda has a larger and more educated African elite than Kenya and Tanzania in the 1960s, and one result of the migrations during the Amin period and subsequent turmoil, a number of Ugandans gained international business experience in 1970s and 1980s. This may mean that Uganda will now have a greater pool of potential national entrepreneurs.

3.0 Industrial Case Studies In East Africa

3.1 Tourism Sector

A special issue related to tourism concerns the need to enhance the national value added generated by the tourist industry.

Although tourism is a major foreign exchange earner, the net value of the sector depends on the leakage factor. The leakage factor is that part of the tourist dollar that leaves the country to pay for the imports consumed by the tourism sector. For instance, small islands and very poor countries may face greater costs than larger, mainland, developing countries, because they will be more dependent on imported goods, foreign airlines and foreign capital[3].

[3] Leakage also covers the tourist payments for travel, insurance and financial services. Revenues from these services will seldom accrue to tourist destinations because tour operators in developed countries dominate the mobilization of tourists for international travel.

Factors that determine the extent of the foreign exchange leakage include the extent of local ownership, and the level of development of industries and sector that are linked to tourism that can supply materials needed at the construction stage and during operation of tourism facilities.

In large countries where tourism facilities are constructed, equipped and supplied largely from local resources (including staffing by local labour), net foreign exchange earnings can be in excess of 85%[4]. In small and relatively underdeveloped countries, imports are sometimes considerable, yielding net foreign exchange earnings of about 45%[5]. In Kenya, leakage is estimated to be between 23-25%. There is therefore a need to identify how the leakages can be minimised through identifying opportunities and mechanisms for increased local entrepreneurship in the industry.

According to data on Tanzania provided by the All Africa Travel and Tourism Association (AATTA), hunting is 95% foreign owned, air travel 99%, land 80%, hotels and lodges 80% and leisure and recreation 50% (United Republic of Tanzania et al, 2001). By March 1999, 35 tourist-hunting companies were registered, of which 15 were wholly foreign owned, 16 Tanzania wholly owned and 4 were joint ventures (Kulindwa et al, 2001). According to Chachage (1999), due to concentration of ownership in the hands of foreigners, Tanzania loses about two thirds of its foreign earnings in the industry. Ownership is not enough, control of these enterprises is even more important. He cites the case of Tanzania where even when it is a joint venture, management is left to the foreigners (Chachage, 1999). The table below illustrates that over half of the hunting blocks are owned by foreign tourist game hunting corporations.

Table 1: Ownership Structure of Hunting Blocks[6]

Ownership	No. of companies	No. of hunting blocks owned	% of total blocks
Foreign Tourist Game Hunting Corporations	15	68	53.5
Local Companies (Tanzanians)	15	39	30.7
Joint Venture	4	14	11
(TAWICO) now a private company	1	6	4.7
Total	35	127	99.9

Source: Kulindwa et al, 2001

According to Sindigo (1999) in the case of Kenya, about 78 percent of the major hotels at the coast, 67 percent in Nairobi and 66 percent of the lodges have some foreign investment. Sixteen percent of the hotels at the coast are wholly foreign owned, 17% in Nairobi and 11% of the lodges. In Malindi, 60% of the tourist hotels are foreign owned, 55% in Watamu and 53% in Lamu. Out of about 157 Nairobi based tour operators, those who were wholly indigenous owned were only 46. Of the 64 curio shops located in the tourist square mile of downtown Nairobi, 57 were

[4] Examples include Mexico, Thailand, Turkey and the Dominican Republic
[5] Without allowing for repatriation of profits
[6] The figures are different from those for AATA. The later are based on turn over.

owned by people of Asian origin, and three shops were owned jointly with Africans. Independent African curio entrepreneurs are concentrated in the rented stalls at the central city market.

Entrepreneurship in the East Africa Tourism industry can be easily understood from a historical context. In the colonial period, the investment environment had favoured the European entrepreneurs. For a long time, only Europeans were equipped socially, culturally and economically to be involved in developing services which were largely catering to a European market. At the early stages, most of the investment was from Europeans and Asians already resident in East Africa[7].

The notable exception to this pattern of development had been the active development of a well-run State owned hotel chain in Uganda in the late colonial period, owned and managed by a subsidiary of UDC.[8]

The period after independence witnessed the entry of foreign investment through multinationals companies[9]. When indigenous entrepreneurship started taking root, it was not through individuals but through quasi government organisations. After independence, there were few African entrepreneurs and little indigenous capital for investment in the tourist industry (Sindigo,1999),. The state therefore undertook to mobilize both financial and human resources in order to acquire rapid development.

The Kenya Tourist Development Corporation (KTDC) was established in 1965 to represent the state in commercial sector of tourism. KTDC was meant to act as the executive agency in tourism for government indigenisation policies. The corporation's investments mainly involved partnerships with foreign capital, domestic capital such as Kenya Airways and trans national corporations in hotels and lodges. The trans national partners included public sector agencies such as the Commonwealth Development Corporation, Germany Development Company, and International Finance Corporation, along with MNCs such Hilton International, Intercontinental Hotels Corporation and British Airways. KTDC was also involved in management and tour operation through a subsidiary African Tours and Hotels (AT&T)[10]. AT&T was managing almost all of the hotels which KTDC had a capital investment except those with trans national corporations partnership. Although initially AT&T prospects looked promising, the organisation was later to face managerial and financial crisis due to political interference. Most of the managerial appointments did not have entrepreneurial skills required in a competitive tourist industry[11].

[7] Although the main players were the European community, there were instances of large-scale Asian investment, e.g. the Cassemlakha family owned the Imperial – later the Grand, then the Imperial and now the Grand Imperial Hotel in Kampala as well as one of the leading Mombasa hotels. In more recent years, the Serena group, owned by the Aga Khan, have become significant players in the tourist hotel trade in both Kenya and Tanzania.

[8] Also the East African Railway Corporation participated in a modest way in the up-country hotel trade.

[9] There were examples of MNC investment in the colonial period, such as the Brooke Bond investment in the Kericho Tea Hotel.

[10] Shareholding in AT&T included KTDC 52.6%, Kenya Airways 20.08%, Industrial Development Bank 9.93% and others with a total of 17.4%.

[11] Note that an exception is the Government owned Utalii Hotel and Hotel Management Training School in Nairobi is still financially stable.

The development of state enterprises in the Tanzania tourism industry is linked to the 1967 Government nationalization policy. The nationalization policy outlined which sectors were to be reserved for state sector ownership only, and the ones that private ownership would also be allowed to participate[12]. Parastatal companies were established to ensure that both investment decisions and operating control were in the hands of Tanzanians. Not all enterprises in the sector were nationalized. According to Curry (1980), the future development of tourism in Tanzania was to take place as a competitive development between state sector and foreign capital, and between state sector and non-state sector.

Around the mid 1960s, the state started tourist enterprises under a variety of finance and management agreements with foreign companies. This was mainly through equity funds, budget allocations and loans. In 1965, Kilimanjaro Hotel in Dare es Salaam that was opened, financed jointly by government equity and foreign loans[13]. In the same year, the National Development Corporation (NDC) invested in Lake Manyara Hotels, New Africa Hotels and Tanzania Wildlife Safaris Ltd[14] [15]. This was followed by game lodges in Ngorongoro and Serengeti National Park. NDC through joint ventures was also involved in the financing of New Arusha Hotels and the Bahari Beach Hotel Ltd[16].

Cooperation with foreign companies was however to change in the 1970s when the government policy discouraged foreign funds for hotel expansion. Hotel expansion was restricted to the Tanzania Tourist Corporation (TTC) and private investors not directly associated with foreign airline or hotel companies[17].

State investment in the tourism sector could not generate enough funds to expand or recompense government expenditures made in the past. Curry (1980) concludes that in the tourism sector, the expansion of state ownership recommended through the Arusha declaration failed in its objective of domestic accumulation of investment funds.

Since 1969, Tanzania Hotels Investment Limited (TAHI) a subsidiary of the defunct TTC had invested in tourism facilities by building a hotel and five lodges in the northern circuit.

During the liberalisation period there has been an increased role for private partnerships. TAHI for instance entered into private partnership with ACCOR Group of Hotels, from France[18]. ACCOR become a co-owner of Novotel, Mount Meru hotel in Arusha and five lodges in the national parks (Chachage, 1999). By the year 2001, state commercial sector had been reduced to four lodges in the Northern circuit, Mt.

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[12] For the former, the plan was for investments in form of joint ventures but under state ownership

[13] Some of the loan capital came from an Israel Company, Mlonot Ltd that also managed it under rental management until 1972 when the contract was terminated.

[14] NDC was a fully state owned enterprise. In 1969, the government transferred the direct NDC holdings and operating arrangements for the enterprise to the Tanzania Tourist Corporation (TTC), a newly formed parastatal company to operate in the tourism branch as a whole.

[15] See Tourism and Underdeveloped, the case of Tanzania by Steve Curry

[16] Bahari Beach Hotel also included funds from Industrial Promotion Services, a Swiss Finance Company

[17] See Tourism and Underdeveloped, the case of Tanzania by Steve Curry

[18] ACCOR owns and manages over 2,000 hotel units world wide

Meru Hotel, the Mafia Island Lodge, and the Kilimanjaro Hotel in Dar es Salaam. These enterprises are earmarked for privatisation.

Indigenous private entrepreneurs in the Kenyan tourism industry had a head start compared to Tanzania. A few indigenous entrepreneurs had managed to invest in tourist class hotels in the early 1980s. The financial support to make the investments was provided through the Kenya Tourism Development Corporation. KTDC had set up a revolving fund loans programme primarily to assist in the indigenisation of the ownership of tourism facilities. The institution provided loans in favourable terms to assist Kenyans to purchase facilities, develop new ones, and extend or modernise existing or newly acquired facilities. Most of the beneficiaries of the KTDC loans were civil servants and heads of Government parastatals. This included permanent secretaries in the ministry of Tourism and former directors of KTDC. They were able to access funds and invest in international tourist hotels with outside investors or as sole proprietors.

Financial support given to small and medium size entrepreneurs was not sufficient for them to compete with big businesses. KTDC was reluctant to support small and medium sized hotels, lodges and restaurants for domestic tourism because of fear of recovering its money from businessmen not well established. Jommo (1987) summarises the role that the state played in promoting a national bourgeoisie in the Kenyan tourism industry as follows:

"Most financing for the big investments such as luxury hotels came from the state institutions where the investors were more likely to have some influence. For instance, they were board members or were associated in a private venture with board members or executives of institutions concerned".

Such support was missing for Tanzania. None of the related institutions such as NDC or the Tanzania Tourist Corporation had such a facility, in line with the 1969 Leadership Code, which sought to prevent those in leadership positions in the government, party and the public enterprises from capitalist practices. Those entrepreneurs who managed to build medium class hotels had limited access to capital to expand their operations.

A new group of indigenous entrepreneurs have however been able to take advantage of the market changes in the early 1990s and invest in first class tourist hotels mainly through partnerships with international investors.

The same scenario can be seen in the tours companies, where Africans have small companies, which obtain subcontracts from the big tour operators for a small fee. It is worth noting that the number of enterprises does not reveal the extent of foreign ownership in the industry. Most of the trans national corporations invest in relatively large hotels and enterprises whose turnover accounts for a big percentage of the revenue generated in the industry. For instance, from the data provided by Jommo (1987) one of the tour companies in Kenya, United Touring Company (UTC) had 416 vehicles. This was more than half the total number of vehicles owned by the ten biggest tour companies in the country.

There is no evidence that during the privatisation of the state enterprises in tourism industry, indigenisation was promoted. In the case of Tanzania, some of the conditions put by the Public Sector Reform Commission before acquiring the investments were far too high for most of the indigenous entrepreneurs to meet. This is especially in the case of the hotel industry. The few local investors who have taken up the firms have been unable to implement the agreed investment plans. The Government for instance is planning to repossess the Mikumi Wildlife Lodge after the local investor who acquired it failed to honour the acquisition agreement and investment plan[19]. However in medium scale enterprises, notable success has been registered. This includes the Mikono Handicraft and ABC Travel and Tour Company, which were both acquired by former employees of the enterprises.

Indigenous entrepreneurs have succeeded in medium hotels outside the main tourist areas and towns, where trans national corporations have shown limited enthusiasm to enter into these areas and therefore competition is limited. This could be a niche for local entrepreneurs to concentrate on especially to cater for domestic tourism. Chances for local entrepreneurs entering into the first class tourist hotel business and succeeding without partnership with trans national corporations are limited. As the following statement notes, the business is competitive and getting into partnership with a trans national or franchising is likely to make the business marketable:

"Tourists will mainly go to places where they feel safe and where services or facilities are almost equivalent to that of their home places, and this they believe can be better catered for by internationally reputable companies"

Another factor that has been responsible for stagnation of indigenous entrepreneurs is vertical integration in the industry. This is evident in both countries. In Kenya, Ica safari club of Switzerland has its own charter planes, safari vehicles and several hotels at the Kenyan coast. Germany International Tour Operator, TUI owns equity shares in Pollman Tours of Kenya and several hotels including Whispering Palms, Two Fishes Hotel and Diani Sea Lodge. Franco Rosso an Italian Tour firm owns Tropical Village in Malindi and Leopard Beach Hotel in Diani and is involved in local tour operations. UTC a subsidiary of BET of Britain owns the expansive Block Hotels chain, has a hotel management unit, touring and travel, and self drive divisions. The Tanzania National Tourism Policy discourages vertical integration in tourism investments [20]. This, however, has not been enacted into a law.

In case of the small-scale entrepreneurs in the sector, the main barrier is the multiple licenses that they have to pay[21]. These licenses are prohibitive especially for new entrants. In A US$ 5000 fee and US$ 250,000 investment minimum capital is required before you can be licensed to start operating in Tanzania. These conditions are considered prohibitive to the local entrepreneurs as they favour foreign companies, which can easily raise the money.

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[19] From the Department of Tourism and the Guardian Newspaper.

[20] see page 19

[21] Examples of annual licenses include; guest house licenses, restaurant license, liquor license, house keeper license, common lodge license, food license, live music band license, inspection fee, development levy, medical examination, property tax, refusal fees etc.

Enterprises run as family businesses especially in the medium scale tour companies also seem to be more stable. Most of the touring companies in Arusha, seems to have this element. The firms were founded by an entrepreneurial driven parent who was later joined by other relatives as the business expanded. This concept is largely responsible for the success of the Asian businesses.

3.2 Petroleum Marketing

For a long time, state corporations were responsible for the importation of oil products in Kenya and Tanzania. State Oil Corporations were set up during the period of the oil crisis to ensure security and stability of oil supply. The National Oil Corporation of Kenya (NOCK) and the Tanzania Petroleum Development Corporation (TPDC) were responsible for the procurement and importation of crude and refined products, refining, and administration of price control system and for liaison with oil marketing companies operating in their respective countries. The oil companies were however responsible for marketing and distribution. The liberalisation of the petroleum industry has rendered state entrepreneurship in the importation invalid. State corporations are supposed to be regulators and can therefore not be entrepreneurs at the same time. Importation is subsequently done by private oil companies.

There are currently about 15 companies active in the Kenya market, although more than 50 have been licensed. The main companies, which account for over 80% of the market, are BP/Shell, Caltex, Total/Elf, Mobil, Agip and Keno-Kobil. Except for Kobil and Kenol (which has a 100% Kenyan equity shareholding), all the other 7 major companies are foreign owned. Local shareholding in Total Kenya is about 20%. Total-Kenya and Kenol are the only companies quoted on the Nairobi Stock Exchange. The other players are Alba Petroleum, Engen(K), Fuelex Oil, and Jovenna from South Africa, Galana, Mafuta Products and National Oil Corporation of Kenya (NOCK)[22]. Fuelex, which is the largest local company accounts for less than one percent of the market share.

In 2000, after the sector liberalisation, according to the economic survey, 21 companies were licensed to operate in Tanzania. Less than 15 companies are however operational. This has however improved compared to six oil firms (BP,AGIP, Esso, Caltex, Total, Mobil) in 1996. Before the licensing of the new companies, BP which was the leading company accounted for 44% of the overall market, 36% of the retail or station service sector, almost 50% of the commercial sector and nearly 70 % of the aviation sector. The Government in the 1970s acquired 50% shares in BP-Shell and Agip but the entire management remained in the hands of the company. Currently, a combination of GAPCO/GAPOIL (which though registered as different company is owned by one person) accounts for over 40 percent of the market share. Other entrants include Oil Com, NatOil, Jovena and Engen of South Africa, and Kobil of Kenya though their market share is still marginal[23].

Currently there are 17 licensed companies in Uganda but only about 10 are operational. Shell, Total and Caltex are the main players. Other companies include

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[22] Although it is still government owned, NOCK entered the retailing business after liberalisation but as commercial entity.

[23] In August 2002, NatOil was purchased by Petrol Oil (Kenya) Ltd, based in Mombasa

Gapco (which in 1995 bought Esso) and Kobil of Kenya, which entered the market in 1999. In1991, Shell acquired the outstanding 50% of its Uganda share holding from the Government. Shell also bought out Uganda Petroleum (UPET) in 1998 and Agip in 2000[24].

State entrepreneurship in the marketing of petroleum products is expected to gradually wane in the three countries. The Government has already divested its shares in Uganda and there are similar plans in Tanzania. It is therefore expected that the entire operation will be in the hands of the private sector in the future.

The growth of the indigenous companies, is however, still slow. Though new indigenous companies have been licensed, very few started operations in all the three countries. The big companies have elaborate distribution channels and enjoy economies of scale forcing new entrants to come in large scale or accept cost disadvantage. They have also developed brand identity with consumers through advertising and service warranties that would take new entrants time and resources to develop. The multinationals are also vertically and horizontally integrated. Horizontal integration means that the branded retail outlets can only purchase products from the multinationals. Other factors include capital and infrastructural investment required for start-ups, costs such as fixed facilities, customer credit and absorbing start up losses. The huge capital venture and related costs favour big corporations with huge capital reserves.

Multinationals still dominate the importation and marketing of petroleum products in East Africa. However, indigenous oil companies are gradually entering into the market to compete with the multinationals. A good example is Kenol in Kenya and GAPCO-GAPOIL in Tanzania, which account for 40% and 21% of the market share respectively[25]. GAPCO acquired shares of Caltex in Tanzania and Esso in Uganda. Others, however such as the Uganda Petroleum Company (UPET) have not been able to withstand the competition. UPET was recently bought by Shell.

Kenol-Kobil and GAPCO companies are a clear indication that local entrepreneurship in the East African petroleum marketing has taken root, and its possible to compete effectively with the companies from developed countries which have been in the market for almost a century. The two companies are now extending their operations outside the East African markets.

The two successful case studies can however not be compared with Engen of South Africa. Engen acquired Mobil when it was pulling its operations from Africa almost ten years after local companies in East Africa such as Kobil and UPET had acquired Mobil operations. Compared to Engen, the two East African companies have not managed to expand as rapidly as the latter. Engen is currently a leading company in East and Southern Africa markets and has some operations in West and Central Africa. Although we cannot compare South Africa companies with those from East Africa, the rapid expansion of Engen illustrates the capital constraints limiting the growth of indigenous companies in East Africa. Before being acquired by Petronas of Malaysia, Engen was traded on the Johannesburg Stock Exchange for a long time.

[24] UPET was a local company owned by Asians who had acquired Mobil operations in the 70s.
[25] Although it is incorporated in Mauritius, it was started in Tanzania and is owned by two Tanzanian Indian brothers.

Kenol is the only oil company in East Africa traded on the stock exchanges. Kenol has managed to penetrate markets as far as Zambia. Although being quoted on the stock exchange is not the only factor responsible for the rapid expansion, it however indicates that this can be a viable source of capital for local companies seeking to expand to a level they can be able to compete effectively with the multinationals.

Multinationals developed with a very close link to their Governments. In Companies such as BP, Total and Agip, the respective Governments were shareholders in the initial stages of the company's development. The Governments of the respective companies injected capital to sustain the companies, when the companies were faced with internal or external (such as low international prices) crisis. This support is lacking for the local companies in East Africa, which have to compete with multinational on equal basis at their infant stage of development.

Multinational oil companies have also developed through mergers. This is still happening up to date and is what has enabled them to gain control of the market by increasing their capital.. All the entrepreneurs currently in the East African oil market quote capital as the main limitation to the expansion of their companies. None of them has ever considered merging the companies. This is probably because of the small size of the companies and the management problems that might ensue. When the going gets tough for the local companies, they might actually decide to get synergy through mergers. Kenol-Kobil is a good example of two companies that although have not merged they have joined their operations into one company. Kenol Kobil could be replicating the Shell/Royal Dutch strategy of combining but still remaining different companies.

Except for the state joint venture in case of Tanzania Shell-BP and Agip, joint venture between multinationals and indigenous private entrepreneurs is lacking. There is no documented case of joint ventures. This is a contrast to other industries such as the hotel industry where partnership in big hotels is a norm. Multinationals normally prefer entering the market on their own. This has denied the locals the networking necessary to develop entrepreneurship skills. Although the situation in East Africa is not as critical as in South Africa, the Oil Charter developed by the Government of South Africa to promote equity in the oil industry may serve as a model for developing national entrepreneurship in East Africa[26]. Even in Kenya, the 1967 transport licensing regulations made the locals penetrate the oil transport. Licenses were mostly limited to citizens and specific Kenyan owned firms.

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[26] The South African Government has taken a more radical approach to increase black ownership in the oil and petroleum firms. As part of black empowerment policy, the Department of Mineral and Energy Affairs published a White Paper on Energy in 1998 (which called for significant empowerement within the fuel oil industry) and later published an oil industry charter on Black Economic Empowerement within the oil industry. The industry charter was signed in November 2000, committing firms to a target of 25% black ownership by 2010. Blacks only owned 5.8% of the industry at the time of signing the charter. At the end of 2001, nearly 14% was in the hands owned by the minorities. Shell has sold 25% of its marketing arm to an empowerment firm, Thebe Investments. Total is involved in negotiations with potential empowerment partners, Calulo for the sale of 25% equity stake covering the whole range of business, including refining sales and marketing. BP ceded 25% equity to empowerment partners in 2001. It sold 17.5% of its business to the Mineworkers Investment Company and a further 7.5% to the Women's Development Bank. About 29% of Caltex retail partners are black and 14% of procurement expenditures with black companies. It is also exploring the possibilities of selling an equity stake

Lack of vertical integration will still remain a barrier to the growth of indigenous oil companies. The multinationals are not only vertically integrated, but have also diversified into similar products along their line of operation. They have interests from extraction, transportation, refining, and retailing. This is what has helped them remain dominant in the market. East African countries being oil importing, it might not be feasible for the local oil companies to pursue vertical integration.

There is no evidence of political patronage playing a role as far as development of national entrepreneurs in the industry is concerned. However, one of the local oil companies in Kenya is owned by prominent politicians. It is not clear to what extent that has helped the growth of the company since there is no evidence of the company been favoured in contracts and tenders even for government related institutions. One can however argue that the owners have leverage in accessing financial capital required for the growth of the company. By the "national bourgeoisies" being involved in the oil industry, the Government policies in the industry are favourable for investment. Although there is no evidence, the small and medium companies interviewed complained that the Kenyan government policies have mainly been tilted in favour of the big oil companies.

GAPCO and Oil Com in Tanzania present two different growth patterns. GAPCO started by buying an existing company while Oil Com started from scratch. Oilcom currently accounts for over 6 percent of the market share, which is far below that of GAPCO. It is however an indication of the challenges that local companies have to face when they start their business from scratch, and try to compete with already established companies. With enough capital it might be easier for a local entrepreneur to acquire an existing company rather than establish a new company from scratch. One also notes that the owners of GAPCO have been in the petroleum industry since 1930s when their grand parents established a petrol station. Even before acquiring Esso and Caltex, the entrepreneurs were already in the petroleum business and therefore had already established a good network to enable them expand rapidly. There is also no evidence of those who have worked as senior executives either in the ministry of energy or multinationals becoming entrepreneurs. This is in contrast with the tourism industry where senior ministry of tourism officials were able to use state machinery to access fund to venture into the business. Most of those in petroleum business have been businessmen in most of their career life.

In terms of ethnicity and local entrepreneurship, the Asians have managed to establish themselves more than the indigenous. In Tanzania, GAPCO, OilCom and Nat Oil is owned by Asians. The indigenous owns the other small companies such as Rocha's and Toico whose share in the market is insignificant. UPET of Uganda which had established itself in the market before been acquired by Shell was also owned by an Asian.

4.0 Concluding Comment

This paper has mainly concentrated on the role played by the state and multinationals in the development of indigenous entrepreneurship in East Africa. The paper has identified a high foreign ownership in the both the large-scale tourism and petroleum industry enterprises. In both sectors, the state failed to fill a missing entrepreneurial

gap through the vehicle of state enterprise. Although the state played a major role in the development of entrepreneurship in the tourist industry, the role played in the petroleum industry has been minimal. The paper has also identified joint ventures in the tourism industry, which is lacking in the petroleum industry. The paper has also highlighted isolated cases of successful indigenous entrepreneurs either through partnership with multinationals, state support or family networks. Indigenous entrepreneurs have however managed to establish themselves in the medium enterprises. The link between small-scale entrepreneurs and globalisation has however been under researched.

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