

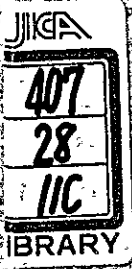
ケニアにおける国営企業の改革と民営化

「ケニアにおける国営企業の改革と民営化」

"The Reformation and Privatization of State Owned Enterprises"

1995年2月7日

国際協力事業団 国際協力総合研修所
財団法人 国際開発センター





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〔講演〕

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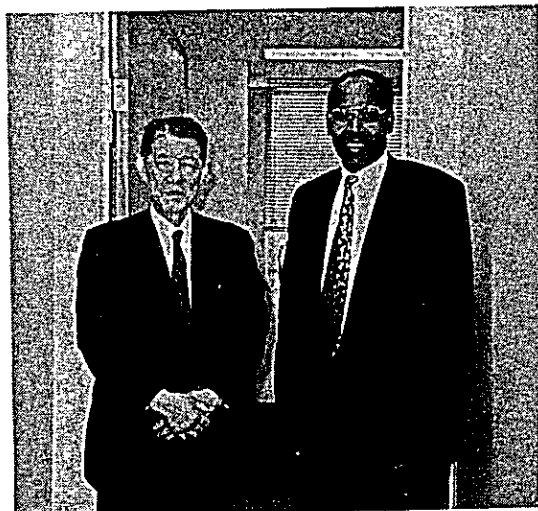
講師 ケニア副大統領府・計画開発省 計画局長
カンゲテ・ワマイザ・ギトゥ博士

Director of Planning, Office of Vice President and
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Dr. Kangethe Wamaitha Gitu



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Dr. Kangethe Wamaitha Gitu
IDCJ会長河合氏と
(With IDCJ Chairman and President, Mr. Kawai)

カンゲテ・ワマイザ・ギトゥ博士の略歴

1983年、ペンシルバニア州立大学博士号取得後（農業経済専攻）、ハーバード国際開発研究所のアドバイザーを経て、ケニア計画開発省・農業農村開発長期計画部の主任アドバイザーを歴任。現在、ケニア副大統領府・計画開発省 計画局長。

Dr. Kangethe Wamaitha Gitu : Experience

- 1994- Director of Planning, Office of Vice President and Ministry of Planning and National Development, Kenya
- 1988-1994 Senior Advisor, Agricultural and Rural Development Long Range Planning Division, Ministry of Planning and National Development, Kenya
- 1983-1988 Advisor, Harvard Institute for International Development Technical Assistant, Pool Project Development Planning Division, Strategy Planning Section, Ministry of Agriculture, Kenya

Awarded Degree

- 1983 The Pennsylvania State University, Ph.D: Agricultural Economics



Gitu氏による講演要約

ケニア独立後、民間部門における技術・資本蓄積の欠如などさまざまな要因から政府の市場への介入が正当化され、国営企業が多数設立された。しかしながら、政治的干渉、腐敗、制度・マネジメントの問題などにより、国営企業の成長率は民間企業に比べて格段に低く、全要素生産性成長率はマイナスでさえあった。その結果、貿易収支の赤字に占める国営企業の割合が28%を占めるなど、国営企業の非効率性に関する問題が顕在化し、国営企業改革の必要性が認識されるようになった。そして1992年7月、33の戦略部門国営企業を除く、207の非戦略部門国営企業が選定され、第1フェーズではうち45社の民営化が実施されている。

民営化における重要な点は利潤追及、及び競争原理の導入による効率性の改善である。独占国営企業の場合、民営化するだけでなく新たに民間企業を育成し、競争的な市場を創設する必要がある。競争原理の導入は企業経営の透明性を高め、汚職レベルの低下にも貢献することが予想される。一方、民営化の対象外である戦略部門国営企業のマネジメントの改善には、競争原理の導入、業務内容の変更などが考えられる。

銀行制度など金融部門の改革も同時に実施される必要がある。国営企業の買い手については、当初ケニア国民に限定されていたが、購買力に限界があるので、1994年12月から全株式の20%を限度として外国人の資本参加も認められた。民営化は世界銀行/IMFの提言によって進展が加速化されたことは確かであるが、以前よりケニア国内においても改革の必要性は指摘されていた。

改革の過程で失業者の増加や、価格の上昇などの問題を避けることは難しい。こうした問題の影響を最小限に押さえるため、社会的サービスを提供するための基金の設立、再雇用に向けた教育システムの構築などが検討されるべきである。

個々の国営企業が戦略的であるか、非戦略的であるかは、そのときどきの政治経済的状况、金融システム、民営化の時期などによる。例えば、港や鉄道は国内産業であり、鉄道を購入するだけの資金を保有する者がいないので戦略部門に分類されている。一方、ケニア航空はインフラがある程度整備されており、国の支援なしでも経営が可能であるので非戦略部門となっている。

民営化はケニアだけでなく多くのアフリカ諸国で実施されているが、成功した国はまだないと思われる。しかしケニアは、旧社会主義諸国等と比較してビジネス関係の弁護士、司法システムなどが整備されており改革を進展させやすい。また、私的土地所有制度が確立しており、旧社会主義諸国に見られるような土地の配分から取り組む必要がないのもケニアの強みである。

ケニアの今後の発展戦略としては、将来的には工業化を図りたいが、当面は比較優位のある農業を活かしつつ輸出の付加価値を高めていくために、農産物加工産業を育成していくべきである。また、中小企業の育成が雇用創出の面からも重要であり、中小企業と大企業とが相互に補完する形態が望ましい。

PRIVATIZATION OF PUBLIC ENTERPRISES (PE's) IN KENYA

by Dr. Kangethe Wamaitha Gitu

[Dr. Jinichiro Yabuta]

Let us start our discussion session with Dr. Gitu, from Nairobi, the Government of Kenya. My name is Yabuta, Director of Planning and Research Division. I will be a Chairman of this meeting simply because my division provides the logistic support to his visit.

I think you have the handout from Dr. Gitu and IDCJ, papers regarding the introduction of profile of Dr. Gitu. As this profile tells you, Dr. Gitu is a leading planner and economist in Kenyan Government, now at the position of Director of Planning of Ministry of Planning and National Development, which handled directly under the Vice President of Kenyan Government. This position is supposed to play an important role of coordinating and integrating various sector plans of various ministries of Kenyan Government. We are very lucky to be able to have chance to discuss with Dr. Gitu this time. He is an originally agricultural economist, and he has been active in various fields in economic planning and development, not just confined to agricultural economist but many things. Today Dr. Gitu is going to talk about reformation and privatization of state enterprises taking a case in Kenya.

I should not forget to mention why he is here in Tokyo this time. Dr. Gitu has been invited by JICA (Japan International Cooperation Agency) on its program to exchange experts among different countries. Dr. Gitu is invited to Japan to have discussion dialogue with experts, planners and economists in various fields in Japan. And also he is going to have trips to Hamamatsu area to know about development in Japan. Another purpose of his visit to Japan, IDCJ has been participating in international joint study on aid effectiveness in Africa. This project has been led by Dr. Uchida of Kobe University, who had been staff of IDCJ until recent, and this time Dr.

Gitu will have an intensive discussion with us how to proceed the project. Taking this opportunity, IDCJ tried to organize today's discussion meeting with Dr. Gitu and we appreciate very much that all of you are very busy but kindly joined us today to have discussion with Dr. Gitu.

We have about less than two hours. According to this agenda, Dr. Gitu is supposed to have speech for one hour, but he said that he would like to shorten his speech to have a sufficient and adequate time for discussion with you. So he would like to have his speech for about thirty to forty minutes or less. And he would like to have discussion following his speech.

[Dr. Kangethe Wamaiitha Gitu]

Thank you very much. As you know, we are all students of reforms, or I think most of you are, and I am actually a very young student especially of privatization. What I am going to do is, since you have just received my short paper, to try to read few paragraphs to give you the material for the discussion. I am happy to be with you today to talk about an important subject on reformation of privatization and state-owned enterprises and on state reform problems, and to share with you some ideas and outlines of these issues as they relate to my country's experiences and problems of parastatals in Kenya. If I were to talk all the important aspects of Kenyan parastatals reform programs, I would probably need a whole day. This is the reason I tend to compile myself strictly to the essential aspect of this subject.

Let me begin by giving you these historic perspectives of state-owned enterprises in Kenya. The budgets of state-owned enterprises in Kenya is most originally the result of the perceived role the state had to play in achieving national development. In fact, during the colonial era, the state featured prominently in Kenya's political, social and economic affairs. Besides the traditional government services of maintenance of law and

order, extraction of revenue and regulation of the economy, the post-independence Kenyan state started to expand its activities into the socio-economic spheres.

Mr. Chairman, subsequent independency in 1963, and during most of the 1960s, promises that have been made by the nationalist leaders during the independent struggle, as a means of rallying support behind the independence cause, had now to be honored. Kenyans who are diverse in ethno-cultural development and linguistic, religious and political differences caused a serious dilemma for the independent of the nation, state of Kenya, as these differences have to be accommodated at the same time the nation building objectives were pursued. All above the constancy opened up immense opportunities for government intervention in Kenya. As you are all aware, at that time, the notion that the private sector lack the means in financial and human resources undertake the tasks of development became the good reason for Kenyans to advocate increased government intervention to tackle Kenya's state of underdevelopment.

There were other obvious reasons for the state invention, for example, new state faced in the saving constraints in the field of weak financial market. There was a desire to accelerate industrialization, which is a strategic way of import substitution. Because in parastatals, to relay on taxation and financial intervention as strategies for resource mobilization to finance national development. The Government intervention was also important to protect infant industries from external competition. In summary, Mr. Chairman, measures aimed at the elimination of poverty, ensuring equitable distribution of income and stimulating employment were adopted as critical goals of national development to achieve and improve welfare for all .

Mr. Chairman, each of these goals requires to increase government role in the economy. More specific, the recognition of the weakness of the private

sector at that time, and unlikelihood of its investing in areas that would lead to payment of critical goals formed main rationale for increased government investment and budgets of parastatals sector are equally important for national security consideration, which were invoked rationales for government intervention and production of strategic goods and services. Mr. Chairman, those were the reasons, that led to the state intervention in Kenya and embankment of the parastatal sectors.

Let us consider the reasons which have recently led to stating divestitures and reform and privatization of sectors in Kenya. A wide range of institutional and managerial problems have beset the sectors of parastatals, including:

- 1) excessive control and political interference;
 - 2) managerial incompetence;
 - 3) low integrity and incompetence of some board of directors;
 - 4) managerial corruption;
 - 5) in certain instances, poor personnel policies and practices, including overstaffing, high staff turnover, and poor job definition;
 - 6) untimely financial reporting, the inadequate fiduciary responsibility to the government;
 - 7) monopolistic and oligopolistic tendencies;
- and finally
- 8) the impact of external factors which were often beyond the control of management, such as international price fluctuations, or defective macroeconomic policies and sometimes unclear the objectives.

Mr. Chairman, other institutional and managerial problems facing the parastatal sectors including 1) poor industrial relations, 2) in certain cases poor feasibility studies and location of enterprises, and 3) the inability of some parastatals to respond to inadequate infrastructures support. As economist, or privatizing economist, you will be interested to know the performance and productivity problems that has confronted the sectors in

these experiences in these performance in later problems have laid a prominent role in characterizing the reform of privatization process. The performance of public sectors in Kenya has been very disappointed. World Bank has estimated that the parastatals' value added grow at a dismal 0.5%/annually between 1986 and 1990, compared with overall GDP growth of 5% annually over the same period.

Secondly, this sample on parastatal and private enterprises has estimation of total factor productivity growth during the same period as negative for parastatal sectors, compared with 5.4% for private sector, while growth of capital input was high. The sector has inherent problems of fiscal and financial nature. For example, excluding the profits of the Central Bank, net inflows to the Central Government budget were significantly negative from region of -0.9% to -1.1% of GDP or nearly zero. The sector accounted for more than a third of the government's net lending and contributed little to revenue. But the parastatal sector ran a net trade deficit of 28% of the total, however, the sector did not increase the external debt, and the efficiency with which fund were used is at issue. The government often assumed the debt servicing obligations of parastatals which often borrowed externally without clearance from the treasury.

And finally, although the parastatal sector does not appear to have imposed budget macro system, the sector its demand or lack of contribution to digest budget revenue estimate increase the government on budget deficit and its demand for credit.

Mr. Chairman, this institutional and management problems have key to Kenya's privatization process. By 1991 the parastatal sector have about 250 parastatals producing goods and services. In the half of these parastatals the government was the majority of the equity holders. In 1991 the Government announced its decision to divest its interests of the parastatal sectors. Some 270 non-strategic parastatals were identified for

privatization or liquidation, while the remaining 33 parastatals were to be retained but restructured to enhance their efficiency. The privatization process commenced in July 1992 when the Government published a policy paper to guide the privatization and parastatal reform program.

Mr. Chairman, the first phase of privatization selected 45 parastatals out of the preliminary list of 207 non-strategic parastatals. Today 43 parastatals has been privatized, of these 2.9% have been privatized through liquidations, 3.4% through receiverships, 10% through pre-emptive right sales, and 2.4% through public floatations, and 2.4% through sales by competitive bidding. You will probably wish to know how Kenyan Government has categorized parastatals as strategic and non-strategic. We consider enterprises or part(s) of enterprises as strategic if they are vital to national security and provide essential goods and services. Under the privatization programme, viable non-strategic are sold but non viable ones are liquidated or divested by the Government. Other criteria used to identify the parastatals for privatization include the following:

- 1) majority government ownership. Here, preference is given to privatizing firms in which the Government has a majority ownership;
- 2) minimum restructuring: priority is given to the public enterprises that do not require extensive operational, financial and legal requirements prior to privatization;
- 3) you also consider the issue of profitability. Here the preference is given to parastatals that have generated an operating profit for at least last two years, other indicators, that are considered here are the rate of return on assets and equity, inventory turnover and debt to equity ratio;
- 4) the sector diversity. Parastatals are to be drawn form the diverse sectors of the economy;
- 5) available and reliability of data. Operational and financial records and accounts should be reasonably accurate. Some of the parastatals in Kenya sometimes you can not even find the requirements for privatization.

Another criteria is minimal regulatory adjustments. Initial list of parastatals does not include time consuming and costly regulatory adjustment prior to privatization as in the case of monopolies. And finally, the criteria of reduction in budgetary drain. Those parastatals that have substantial treasury support are usually considered for dilution of ownership. Privatization and most of the non-strategic parastatals in Kenya are the major player in some of the budget.

Mr. Chairman, successfully if you met the parastatal reforms and privatization program, the Government has set to involve this process in two phases. First is the preparation phase, which entails operational, financial and legal issues in order to determine the skills of prevailing weaknesses, potential and financial restructuring problems of the parastatals to be privatized.

Next is the construction of a computerized operational and financial model for the parastatals to project likely results and their expected variances under the various scenarios. These steps, Mr. Chairman, lead to the valuation of the parastatals as a going concern, which forms the basis for establishing a range of values that can be used in negotiations with prospective investors and in setting the share price for the public offering.

Second is the execution of final phase which entails implimentation of the transaction. By this stage, all key decision-makers will have approved the privatization action plans. Tasks to be performed in this stage include, where necessary, preparation of sales documentation, and so forth. The fine details of the two phases is contained in Kenyan Government Policy Paper of Public Enterprises Reform and Privatization, a copy of which are able to send to you. Although some satisfactory cases has been made in the Kenyan parastatals reform and privatization program, the process has encountered a major obstruction. This range from structural legititives, financial, legal and political bottomlines.

Let me elaborate a bit on these topics. The prevailing and developing economic environment has fluctuated high social economic costs involving adjustment forces including reform and privatization in later process. These have to be reduced through a reduction in the number of establishment. The sale of some parastatals reforms must nail with immediate financial commitment that has been difficult. All of these brought serious attention in the process of parastatal reform and privatization.

Secondary, the short and medium transaction caused involved privatization in Kenya has also involved financial, restructuring involving bailouts for the certain parastatals in the form of the Government guarantee loans. Transfer of parastatals to the Government and to the private sector is physically the important issue of the enterprises, and all these costs have put substantial prices and trained unavailable military resources for the reform and privatization process.

Thirdly, Dr. Chairman, are the political economy related to constrains in the reform of privatization and parastatal sector. That is not exceptions of the political obstacle that frequently confront economic reforms. Indeed, for obvious reasons, political constrains have frequently obstructed implementation of economic and financial policies designed to improve the performance of the public sector through increased privatization in Kenya. As you are aware, the principal issues in the politics of privatization center in the relative strength of proponents and opponents of the reform initiatives. The public perception on the potential, particularly employment and the issue of the foreign ownership, has tended to go up the economic rational of reform and privatization of parastatal sectors.

Lastly, there is the issue for poorly developed capital markets with necessary capacity to serve segment shares are important requirement for

parastatal reforms and privatization. As you are aware, a well-diversified and capital market is that liquidate of the development of the strong private sector. Because of the inadequacy of this market in Kenya, equity has tend to be liquid, and deserve perspective investors, and these has tended to slow down the parastatal reform and privatization process.

To conclude, Dr. Chairman, it is evident that in Kenya some meaningful process have been made in the reform of privatization process. Road to escort reform of privatization in these important sectors, is still long and ruff, however, with the Government commitment to the reform, I believe that Kenya would be successful in privatization.

Ladies and gentleman, as I said, I do not have the capacity for making speech for one hour. But I think I have the capacity to discuss. As we are all students, especially myself is a very young student of privatization, I would like to open the discussion to the audience so we can discuss the topic of privatization of Kenya.

[Dr. Yabuta]

Thank very much, Dr. Gitu. The discussion is open to the floor. May I just remind you with one thing. Before making any questions or comments, would you please introduce yourself by saying your name and position. And also, if anyone who would like to say anything in Japanese, please do not hesitate to do so, and let me try to transfer into English. Would you please, I believe that the direct conversation in English is much more effective than conversation through translation.

Thank you very much for cooperation. Now, we welcome your question and comments.

- Questions and Answers -

[Question: Dr. Kunio Takase]

My name is Dr. Takase, the executive director of IDCJ. I am also a student of privatization. I traveled last year to East Europe, Bulgaria, Romania and Africa, that is, Zimbabwe and Senegal. All of them -- I am surprised that there were almost no exceptions -- many countries are in the transitional process more or less. Of course, there are differences in process. Kenya, which I visited two years ago, was one of the most developed countries in Africa. And I did not know at that time, but you said today, that as early as 1987 or '88, you started thinking about privatization because of the so many background was not very effective and many things, the World Bank and others recommend and other things. I would like to know how you feel the privatization in Kenya compares to other countries -- if you know any other countries -- in Africa, or in East Europe, or in China, or in Vietnam. What is the major difference or similarity and what is the process? You said that you did first of all 45 companies as a pilot and you will continue 200 privatization, and you will be successful, but of course some problems will arise. But, it seems to me that Kenya is one of the more successful countries compared to other countries because of the well-trained people and resources available and highly educated. So that is my feeling. But whether my feeling is correct or not, that is my question. Thank you very much.

[Answer: Dr. Kangethe Wamaitha Gitu]

First of all, I would like to say that Kenya is successful. I think we are trying very, very hard. I think in most of the areas of the reforms, privatization is a weakness in Kenya, when we talk about the price reforms. As you know, before 1993, most of our prices were under government control, and today we can say that they are actually 100 percent -- we have decontrolled most of our prices. When it comes to privatization of the parastatals, I think our experience is such that we are not doing very well. One, as I say, the capital

base: Who is to buy the parastatals? I think that is a major problem for Kenya nationals. We would like to buy them. We would like to buy parastatals. It is obvious that they belong to us anyway; they belong to the people. But the issue is who can actually buy them. Are we as Kenya nationals able to buy them? So the concept of foreign investment now comes in and by how much. I think if we were to open up totally to foreigners, obviously we are doing that slowly and gradually. If we can open up the market so that foreign investment can flow actually to buy, I think we can be more successful than we are right now.

I don't want to leave to you very much because of your comparing African countries. I don't know whether that is the best experience. I think we would better be comparing ourselves with others -- the European countries and their restructuring regime. Most of the African countries, to say that we nearly liberalized parastatals I think they ought to open more and Kenya is opening more. We are inviting foreign investors, and I think in a year or two you will be able to see the performance is good. But I am not saying we are very successful. We are not very successful in privatization, in other areas of reform, yes.

[Question: Dr. Takase]

Do you have any information about other countries?

[Answer: Dr. Gitu]

Yes. Next door obviously there is Tanzania, which is also privatizing. There is also Uganda that has started privatizing. Ghana started its reform with earlier than we did. But I don't think that there is one, single African country that can say -- and from the floor you can correct me on that -- that can say that they have actually been very successful. And if Kenya is the best, then we are in trouble. That is what I would like to say on privatization.

[Comment: Dr. Kipkorir Aly Rana]

I am Aly Rana Kipkorir from the Embassy of Kenya in Tokyo. I just want to comment on the previous question and suggest maybe one of the differences. As a student of competitive political economy myself, I feel that one of the differences between Kenya and maybe Eastern European countries and some African countries who pursue the centralized-type of economic program is that with us we had a history of a private sector and also Kenya has a very long tradition of lawyers and a judicial system who are very experienced in dealing with the market economy and conflict between different businesses which the Eastern Europeans and the so-called socialist countries lack. They don't have experience in trying to resolve business conflict while Kenya had from throughout. The other is the land tenure system that Kenya had already a market land tenure system -- willing buyer/willing seller -- and so when we were reforming and introducing privatization, we were just dealing with the public sector and trying to deal with these issues while countries like Somalia they started resorting to war because land was owned by the state and so when it was being privatized clans started fighting other clans for control of land. I think this is the same problem that Poland is still having also, and this is a problem in many other socialist countries where lack of a judicial system who can be honest arbitrators creates a problem in privatization. Thank you.

[Question: Mr. Motoki Takahashi]

I would like to add one more thing. I am an economist from IDCJ. My name is Takahashi, and I am an old friend of Dr. Gitu. I would like to add comparative context about the privatization in Kenya. The IMF and the World Bank conducted studies on the structural adjustment in Africa. One is the IMF's study on the ESAF, the Enhanced Structural Adjustment Facility, and another one is the very famous book of the World Bank its adjustment in Africa. As Dr. Gitu said, compared with other aspects of the structural adjustment, like stabilization or liberalization like deregulation

or decontrolling of the price, privatization and financial system reform has a more problems and without one exception, all African countries have a difficulty in executing the privatization process and also financial systems restructuring which has a very deep relationship with privatization. That is what the Bretton Woods Organizations are saying, not myself. The conclusion is like that. Maybe it is almost correct, but we have some reservation. Anyway that is their conclusion. I would like to introduce their observations to Dr. Takase. I would like to add one question to Dr. Gitu. I think that one thing that the Bretton Woods organizations are correct about is that privatization and financial system restructuring have a very deep relationship with each other; they are connected very much in the political economy in the African countries. I would like to have your view on this issue. Maybe to get ahead the privatization, you have to restructure your financial system, on the other hand, like the banking system, and you have to detach the banks from the public sector in the political sense or operational sense, I don't know. That is what I would like to ask you.

[Answer: Dr. Gitu]

Just look at the history of the reforms in Kenya. We started with the prices, both commodity and prices, and we moved to decontrol interest rates and gradually executed. I think you can not separate privatization with financial restructuring. I think that they have to happen at the same time. In the area that we have performed very well, it is where we actually started looking at the sector in the macro sense. But, if, for example, you deregulate the prices of commodities and at the same time the interest rates are controlled and we know, in the macro sense, the rate of interest which is actually a price will affect the commodity prices because they are in the same system. So where privatization or reforms have performed well, it has done that because of partial liberalization that there is one sector which is actually not liberalized. So if you are going to liberalize, if you are going to have an effective reform, you have to look at core prices all throughout

the system and not just one price. I think then obviously the money market, I think that those African countries which are not performing well -- and again I am very careful about "well" because I'm not sure if we are doing very well -- is that the capital market behind the government -- it must be governed to a certain extent that will allow the ability for other entities to enter the market. With poor capital markets, I don't think we have the opportunity of getting results or good results out of liberalization. I think it is not too clear to me. You have to have a stronger stop-cock in this case for it to be successful.

[Question: Mr. S. V. Ramana]

I am S. V. Ramana from India. Before going on for this privatization, has there been any evaluation, list of the flaws in the management of the public sector enterprises. Has there been any effort to modify these and political interference and try to evaluate whether this is really the cause of the bad performance of the public sector and then you went for privatization. Or is it because of the World Bank or the IMF. Because in India also, we are also passing through this phase wherein the loss-making public sectors, nobody wants to buy first of all, and even if they buy it is not because of their performance or anything, but because of a lot of real estate that goes along with the deal. So they want to exploit that. I want to know whether this has already been evaluated or not.

[Answer: Dr. GITU]

Okay. I think it is very difficult. Let's look at it. 1975, after this is when we used to government for goods and services. Actually, what happened? We were very successful maybe in the past from 1963 to '70. But from '70, the parastatal sectors started to deteriorate and some of the problems of the sector actually what I have put in that. The question here is how you assimilate good management in an area where the people who are actually in who are managing parastatals either you are going to move them out or -- I don't know how one can do this. The reason why we decided even

without government because I think there is one thing that African countries are not given credited for especially when we talk about IMF and World Bank. It is not that we waited; it is not that we are doing it because of the World Bank because I can remember very, very early when I left school and I went home I evaluated the Kenyan primaries, this is one of the parastatals and I found that most of the problems are with the management whether it is because of politics or whether it is because of lack of accountability -- and my colleague here in the back can support me here or he may disagree passionately -- there was a lot of utter corruption in the parastatals. How do you do this? How do you make someone accountable in a management situation? I think the best is actually introducing the profit motive in a firm. That this firm ought to make a profit, and to make a profit you need some level of efficiency, which comes in with some degree of accountability -- that management must be accountable to the owners of the firm. As the director of, for example, the National Cereals and Produce Board, I am supposed to be accountable to government, but it does not work that way. So the first thing is what we should do. Should we for those nonstrategic parastatals, should we actually sell it to the public? Once you sell shares, shareholders who are the stakeholders of the firm will demand accountability, profitability. For some reasons, most African countries have very poor management of their parastatals. But I would like to say that there are areas where the IMF and the World Bank, especially the World Bank, influenced the acceleration of the reform. But I think in 1982 a document was produced by the former governor of the Central Bank, and he was actually talking like the World Bank. You can take the document. I don't know whether you have seen that in 1982, which looked at the performance of the Kenyan economy, especially in the parastatals. He stated it as if he were working for the World Bank, and he was just the governor of the Central Bank. Maybe what we have done is to wait too long to implement our own home-made positions. The World Bank now can say, we are telling you to do this, but we have already said it in 1982, it's just that we did not implement what we foresaw. But now it seems like it is

the World Bank who is saying this, but I believe we believe in it. There are areas that we have to be careful because there are some short-term adverse effects on our very poor, and we have to have the social dimension of structural adjustment to be able to care for the very poor, but I think that the course is the right one. Whether it is the World Bank, whether it is the government, the way we are moving is the right way. I believe it wholeheartedly.

[Question: Ms. Megumi Muto]

My name is Megumi Kobayashi. I am from the OECF, the Overseas Economic Cooperation Fund, working in the Evaluation Group. I am now doing some research on the Ghanaian privatization process, and from that experience, I have personally come to the conclusion that the privatization has two big aspects. One is the reduction of the burden to the state; that is obvious. And then the second one is to enhance the private sector, which means to make the viable companies more viable, I would say, to enhance these privatized companies managed in a proper way. When I think about that aspect, I think that the best environment for that sort of viable, privatized companies should be: One: competent management, and then two: inflow of capital, and three: no major impediments in the labor market, and four: no major impediments in the ingredients market or inputs markets, and so on and so forth. What I want to say is that even though these viable companies are privatized, there may be cases that the market environment itself in terms of capital or in terms of labor, there may be major impediments that will discourage the privatized companies to really be more efficient. I would like to know if in Kenya that there is such kind of concern and measures are taken in order to minimize, I would say, the risk to collapse these viable privatized enterprises.

[Answer: Dr. Gitu]

One problem is that we are privatizing our monopolies. If you have one incompetent and you privatize you are assuming that there are other

competing firms. Because countries in Africa, especially in our country, we have had government introduced buying monopoly or selling monopoly. So what happens when you privatize? You actually have a private monopoly then. And I think this is an area where we have to be very, very careful that our people in the short to medium term may be confronted by very high prices because now we have actually privatized our monopoly. We have just moved the monopoly from government to the private sector. I think that the level of competition is very important. Once you privatize, you have to be sure that you are going to at least assist the development of other enterprises or related enterprises so that you do not have to allow a monopoly. I think that is a hindrance. The issue of capital I think is very important because the level of management is very safe. What we are doing now. As we privatize, we are introducing competition even for personnel between the government and the private sector. What you note in Kenya is that many of the good civil servants are moving to the private sector now. What is the implication involved? You are left with fewer and maybe not as good public servants because most of the competent fellows have moved to the private sector. I think this will be also a problem because the level of management in government can be poor in the future, and this is one reason why we have to be very, very careful. But the point should be correct, and I think that if we are going to measure the performance of them, you have to evaluate them by using these four criterias that you mentioned.

[Question: Mr. Nthakeng Pheello Selinyane]

I am Selinyane from Lesotho. I am a participant on the development policies course hosted by the IDCJ.

I have some, two or three points. I don't know if they are points or questions. They become questions here and there and points here and there. The first one is about conversion to privatization. I think not only in the context of Kenya but in the context of many African countries, the development policies and development strategies which were followed.

were for a very long time influenced by the then-prevailing – what you can call – international political economy. For example, before the 1989 report of the World Bank on sub-Saharan Africa, policies like what the doctor talked about, the realization that the public sector needs to be reformed and so on and so forth were there in a number of independently produced and government-commissioned reports in a number of countries; but as far as the institutions which were dictating the terms and tempo of development with the well-known ramifications on the policies and strategies of developing countries were not prepared themselves to sort of convert to this kind of well-founded wisdom; the countries in a position of Kenya and Lesotho and others could not be in a position, as it were, to embark down that road by themselves, given again, I think, the financial resources implications of embarking on that strategy.

And my second point relates to who is buying the privatized monopolies and other enterprises which are not monopolies. One of the variations of the explanations of the prevalence of state-owned enterprises in the Third World has been the so-called rent-seeking Hypothesis. It has been extended to explain that among others this is what is responsible for inefficiency and lack of accountability because you have a rent-seeking state and that kind of an ideology or set of perceptions permeates to the very low levels of individual management groups and state-owned enterprises. I am just wondering whether this trend is being reversed in the process of privatization or is this just another form of it and in this connection one would say "Who is buying?" is it the doctor with the director in the vice president's office, with what consequences, what is going to be the power and the extent of the state to objectively control him as a new entrepreneur. Again, you know, Guhnar Myrdal talked about the so-called soft state. I know many people take soft state to mean the state which does not go about bashing heads of people, but that is not the case because I think by a soft state as Paul Streeten says, he meant a state, which can have good policies, but not be in a position to implement them to enforce those good policies because of the contradictions of perception in

the personnel who bear state power. So, I am wondering whether now are you a harder as opposed to soft state to be in position therefore where you can not only privatize and make sure that the economic variables move in the direction that is desired, but make sure the new economic actors become subject to and observe certain regulations which should make the economy viable and everybody benefit from the new policy perspectives.

[Answer: Dr. Gitu]

I was asked to tell you what I believe. And I believe in smaller. I would like to see a smaller government, and in Kenya government it was too big. I want a very small government, and there is a document that was just produced last year by the government on sustainable development. In this document the government is saying that it is going to reduce its role in the market. There is no reason why the government can't fulfill markets or manage marketing in Kenya. Today, we focus on providing a service, that is a social service, and the provision of law and order. These are some of the areas that government would like to focus on. But at the same time, the concept of the entrepreneur/public servant, I think this is one area, I don't know how we are going to confront this employment of public servant. I don't know how it works, but I think there is a need to try somehow for those who are running government. There are several things that you have to do for civil servant if you are going to privatize the private sector. And one is making the reasonable purposes. I think that one of the reasons for corrupt and unaccountable management in my country, I do not like to talk about other countries, is that the differential of money. You'll find a person who is running millions of shillings, a farm which is running millions of shillings, but he gets paid 30,000 shillings a month. So you'll find that I think that the propensity to be corrupt is very high for a person who is very qualified. And I think one way of building a stronger private sector, and on the other hand a stronger government sector is looking at once you reform, for example the public sector, you have saved, in terms of subventionary parastatals, but what are going to do with now the savings. I think now

you have to start talking about, or thinking about, the remuneration of the public summons. And I think this is one we are going to come to, because I don't foresee Kenya reducing the level of corruption as long as the salaries and the services of public sector are very low. Again, even in the private sector, I think you have to remunerate the management in the private sector, especially in the former public institutions, you have to remunerate them, and I think if you can do that I foresee a reform system being very successful. I don't know whether that is an indirect way of attacking your soft approach to privatization, but I think that I don't foresee us being part, and at the same time we are going to provide what actually is required for a vibrant private sector.

[Question: Dr. Norimichi Toyomane]

Hi. My name is Toyomane, also working here as deputy director of Development Studies Division at IDCJ. I visited Kenya eight years ago, and at that time I stayed at the Milimani Hotel in Nairobi, and I now see that that hotel is on the list [Appendix 2: b) 134: Milimani Hotels Ltd.]. And I have one question. Looking at the list, very extensive list of the parastatals, I was surprised you have so many state-owned companies. And I notice that two companies, related, working in the field of transportation are in strategic enterprises. Number 14, Port Authority, and number 19, Kenya railways Corporation. So ports and railways are strategic. But number 74, under non-strategic enterprises, Kenya Airways, so you nominate Kenya Airways as non-strategic. I wonder why. Is that because you think Kenya Airways can take care of itself financially? Or are they losing money hopelessly? That is my question.

[Answer: Dr. Gitu]

I think it is both. That they are losing money hopelessly and that they can take care of themselves. I think that internal transport -- and remember when I was talking, I mentioned the proponents and opponents of privatization. I also talked about the political issue here, and it is really

very difficult to separate politics and economics when it comes to this topic. The question of what is the difference between Kenya Airways Ltd. which is a made of transport and Kenya Railways, which is another made of transport, but domestic. I think that, one, the government is saying that no one right now can afford to buy the railways. That is the issue. If we say we are going to sell it next week, it would be difficult to sell the railways than to sell Kenya Airways. I think we can afford actually to do without Kenya Airways. In the short term, I think we can afford not to do with the Airways. The infrastructure is very good; those who have been in Nairobi have seen that the airport is quite decent. I think it can be readily privatized and have minimum government control or zero; I think that can happen. But right now, we have not done that, although it happened in the pipeline. But the Railways, I believe if you were to ask Kenyans and I'm glad that we have one here "can you revisit the strategic and non-strategic parastatals," most Kenyans, including myself, will say that Kenya Railways is non-strategic.

Jomo Kenyatta Foundation would be non-strategic, number 8 [Appendix 2: a) 8], Kenya Industrial Estate Ltd. [Appendix 2: a) 10] will be non-strategic. So it depends on the times and the politics on the finance, because you find many of these can be privatized, but at the time, in 1992, when we were defining strategic and non-strategic, most of these fell in finance into strategic. Look at number 29 [Appendix 2: a) 29] Post Bank Credit Ltd. The reason Post Bank Credit is in the list is because it is related to posts and telecommunications, but where is posts and telecommunications? Is that strategic? Posts and telecommunications.

Also number 15 [Appendix 2: a) 15] Kenya Post Office Savings Bank. Actually they are subsidiary of and related to Kenya Posts, but I think one can privatize but that the type of privatization here is very structurally, making them more viable, because I believe that we have to hold on to the Posts and Telecommunications. But I think they can be privatized, and I am sure in the future we will be thinking about privatizing some of these strategic -- not restructuring but actually selling of shares of these. So it

depends on the time.

There's one there on 32 [Appendix 2: a) 32: Small Enterprises Finance Co. (SEFCO)]. I think that is very much; we can now privatize this and it should be privatized. But at the time in 1992, the issues were the strategic and non-strategic, but I think if you revisit them today, you'll find with the experience that we have obtained now, I think we can actually privatize these, and realize the difference between Kenya Railways and Kenya Airways. We can privatize Kenya Airways very easily at a profit and actually benefit from the privatization. But you know very well that people are very scared, especially civil servants are scared of letting things go.

[Question: Dr. Yasuo Uchida]

My name is Dr. Uchida with Kobe University. Not only sub-Saharan African countries but also my city, Kobe, now need a lot of external development assistance.

The privatization is a big task with big issues, and certainly there are a lot of difficult issues. As Dr. Gitu mentioned, there aren't so many enterprises in the same sector or subsector, therefore some companies monopolize and that could create a kind of transfer of monopoly from public to private sector. Also, we could not expect a lot of competitive companies would emerge in the near future. So I feel that the sort of privatization must be a kind of bottom line. We have to accept it as a monopoly in the early stage, but the issue is how to develop the rival companies, how to create a market that is more competitive, because so far that is the only way. That is my feeling. How to enrich the kind of industry ecology, and creating a lot of micro and small enterprises at the same time. So we have to think about this in the context of development strategy in Kenya and other countries. Now, my question is, as the Indian gentleman mentioned before, the loss making kind of enterprises tends to be put into the list of privatization first because of budgetary burdens. However, the problem is the good public enterprises would not be easily put into the list because they can give some

budgetary contribution to their government, and also sometimes they are politically, strategically important companies, so this type of company tends to survive in the process of privatization. Also, this company could have a sort of monopolistic position in a certain sector. I wonder whether that in Kenya you could find this sort of case, good public enterprises still survive as state-owned enterprises and keeping your monopolistic structure.

[Answer: Dr. Gitu]

Let me be very honest. I talk now as an economist, not as a government officer. I don't believe it is possible in Kenya, although maybe in Japan it is possible -- I don't believe that public enterprise in Kenya at the economic level can actually survive and make a profit without government intervention.

Let me talk about some of the successful government enterprises, success measured by the Kenyan context. For example, the Kenya Tea Development Authority [Appendix 2: a) 21]. If you look at the level of government intervention, it has been minimal. I think that we have to move out from production enterprises. Move out, try to get government to what it can do best. If you have a profit-making public enterprise, sometimes weakly, this is not the one that we should be privatizing. We should be privatizing that, as you rightly say, that is losing money, and that which subvention has been highest, but I think that is the wrong way to go. If we believe that we need to reduce government, I think we should start selling those profit-making enterprises in the hope that we are going to increase the level of profitability because that is where shareholders, like most normal economists, invest. When they are buying shares, you want to buy a share or shares in a profit-making enterprise so you can actually earn something beyond what you actually invested. That is the profit. So I think it is good for Kenya and for other reforming countries to start with the most profitable enterprises to make them profitable.

My proposal at one time was that for those loss-making enterprises should

be given out. Actually, I was very bold. At one time I said, "Give it to them if it is a meat manufacturing industry." And we have a private company which is doing it. Maybe we can sell it soft loan in this case. We introduced soft lending internally, so that the plan which is in meat processing can actually acquire a government meat processing which is not making money. Give it away. Actually, as far as I'm concerned, it's beneficial not to put more money into a particular enterprise. It's better to give it out or just to sell it, as it belongs to the public anyway, and you don't want to keep putting extra money in the institution, so you can give it out or let it go. Or sell it at salvage value if you want, because there are some parastatals' in Kenya which we can, and dispose without feeling anything about. But again, as you mentioned, the level of competition, if we do not introduce, if we do not have mechanisms that will promote competitive firms into the sector, I think in the short to medium term, the restructuring can actually backfire. I believe the prices today of some of the commodities are very high, and looking at zero to nine million persons in Kenya are classified as poor. The impact on prices to these people actually is going to be very difficult and it's actually going to bring crisis. We must introduce some social mechanisms that we can use, without the issue of other competing firms where the prices can be brought down. I believe that can be a problem now.

[Question: Dr. Uchida]

Let me ask from one more question about your line. It's logical to liquidate non-performing enterprises first. However, how can you compensate the resultant social cost of this liquidation of other companies? That is the second question. Compensate for the social cost, which means a lot of people would lose their jobs. And the negative impact on the labor market would be enormous, I guess, and this is a big political issue, too. And the second question is, as the other gentleman mentioned, some public utilities sector related companies are listed here. I think it's a bit dangerous. Under such a government, the privatizing of public utilities sector was a kind of

big strategy. However, in thinking about the good, efficient infrastructure services in Kenya, I wonder whether this would be a good policy or not. For example, in Japan, even now, port authorities are still owned by the local governments. Never, ever privatized in this country, for example.

[Answer: Dr. Gitu]

How can we compensate once we liquidate? I think what we have done, especially just looking at the civil servants, is using the so-called golden handshake. Once you liquidate, you bring the company, you have to actually believe the compensation and I think Kenya cannot afford to compensate. I don't believe that Kenya can afford seriously to compensate, but since the government is charged with the role of protecting its people, today it has approached the government of Japan to intervene in the social dimensions of the adjustment problem, which we started to discuss last year. We have to find a fund, and we have started, the fund for social dimensions, and the last Consultative Group Meeting (CGM) in Paris, we discussed the problem itself, and many donors agreed to participate in the social dimensions of the fund. I think the problem is this: If today you fire me, or liquidate the company or whatever, and you give me 100,000 shilling as my compensation, I believe it's a problem because it also depends on my ability to be able to invest 100,000 and you know what 100,000 is -- it is very little money, and you're telling me to go out there with your 100,000 and I will somehow be employed somewhere.

I believe that the golden handshake, in future, may become a problem in Kenya. Laying people off, given them a handshake, golden or otherwise, telling them to go, I think this is possible, although we do have some mechanisms to train people to utilize their golden handshake, but I have noted even now in government, there are people we provided the money last year through the golden handshake who have come back to look for a job in the government. They're coming back looking for a job because they have already spent it. There are some people who have never seen 100,000, and now you tell them, "Here is 100,000, you go; we have reformed civil

servants and your services are no longer required here," and they have moved out of government. But they are coming back looking for jobs. Their 100,000 or 200,000 has already been spent, and now they are coming back. And now, what is happening is that the government must still think about what it will do with these people. So even the social compensation itself is not sustainable, I don't believe. And laying people off is not the way to the end. And also it depends on the ability for a government to be able to take care of its persons, especially the poor people. I don't think the golden handshake is sustainable, but I think this is something we have learned. That is one of World Bank initiative that you compensate. But you have also to introduce training mechanisms so these people can be employed in other areas, otherwise I think it comes back as a problem in future. I don't know what my friend from Kenya will say about this; it is a very sensitive issue.

[Comment: Dr. Jinichiro Yabuta]

Special aspect another dimension I think, it has a political implication. If it is politically acceptable, feasible, then I think you are right.

[Question: Dr. Uchida]

Also I asked about the feasibility privatization of public utilities.

[Comment: Dr. Kipkorir]

I think you wanted to discuss about the utilities, and maybe I can start with my comments from that issue because in the World Bank and IMF and Bretton Woods institutions there is an ongoing running debate between the Japanese position and the American position on privatization. I am one of the supporters of Japan. I think it is not very wise to really reduce the role of the government, particularly if Kenya has not yet reached the stage of industrial takeoff because until we reach that level of industrial takeoff, we will need to have our own resources for utilities, transportation definitely, the energy sector and others.

But I fully agree with you on the issue of corruption because I think it is political patronage, and that problem needs to be resolved. And if privatization is going to help us, then so be it, because I feel that corruption is related to capital accumulation and formation of a new class of capital owners who use the state to accumulate capital, not only now but before, during the period of colonialism, when the white settlers came and primitively accumulated land, and primitively accumulated stocks of cattle and sheep from Africans. And later on, during the independence period, when our regimes, dependent governments, set up these institutions parastatals who accumulate for the emergent government class capital, and now what we read, I think the class is now reaching the level of maturity where they don't see any need for further primitive accumulation, and they are now interested in eliminating aspects of corruption.

In order for them to do that, I think this is why they were the first to introduce reforms because they felt that excesses would undermine the whole system. I agree with you about corruption; we might disagree on the reasons, but I feel it is a serious cancer and it needs to be removed. However, on the issue of the role of the state, I would like to know how this list of strategic enterprises came into being, particularly there and the other ones because I agree with some of the questions and comments from the floor where people felt that maybe some are in the wrong places. So I'm sure there will be this side or that side. Thank you.

[Answer: Dr. Gitu]

I think I do agree with the observation that we want to authenticate most of those theories, and we do recall it depends on the times and the politics of the times. I do also agree that if you are to give me the assignment today, or if you are to tell the government, can you relook at what is clear side or what is not strategic, I'm very sure today you'll find at least 15 of these 33, almost 15 of that will actually pushed for non-strategic.

The issue of public utilities is very hot, actually. The Japanese or the

American way. I think Kenya tends to be like Japanese in this point. Perhaps they are still holding on to the public utilities, and which ones. Gas or Posts? Kenya Power, electricity? They're still holding on to that. But sometimes, as economists, non-political economists, you ask yourself "at what cost would Kenya hold on to the public utilities and what are the most effective ways of maybe trying to privatize, not giving total power?" I think if there is one area that we could improve, that we could restructure and improve effectiveness, it is in the public utilities. If we can restructure the public utilities in such a way that we can improve efficiency, I have no problem with the government continuing to support the public utilities. It is important not only on economic grounds, I think it is also important on security grounds. I think once you sell out the Ports Authority, you have no control, especially in our case on the coast. I think that we need to restructure them a little bit more, introduce accountability, if you can, and run them at least more efficiently, but there are some parastatals here. The last one, 33 [Appendix 2: a) 33: Tana River Development Co. Ltd.], I think that one can be privatized slowly. You don't need to privatize that authority, but there are others that have to be considered strategic for some time according to that debate, Japan, American are same to me. It also depends on what the country actually believes. If you want to leave towards the bank and want to call some of these utilities as components of what should be privatized, it is up to you, but I don't think government should also take everything that comes from government as pluralism that the country should take the position, whether poor or not, of deciding what it wants its costs to be.

Now I would like to hear from Dr. Kipkorir a little bit more because of your experience. I was hoping that you'd be coming more and more.

[Question: Ms. Sakura Kojima]

My name is Kojima, a lecturer at Tokai University, and I'm awfully sorry to come late, so I missed the body of your lecture, and I'm afraid that I may be asking a question that has already been discussed, but I'll dare to ask you

anyway.

I can understand very well that the actual privatization process of the long strategic public enterprises, but when it comes to the strategic public enterprises, how does your government tackle with this restructuring, enhancing the internal efficiency of management or how your government gives those strategic enterprises autonomy of decision making that you mentioned. The successful case of Kenya Tea Development Authority [Appendix 2: a) 21] and one of the successful factors is that the government guaranteed the autonomy of decision making on this authority. You mentioned that. Anyway, I'd like to know the specifics of how your government deals with the strategic internal improvement of management or the restructuring of the strategic public enterprises.

[Answer: Dr. Gitu]

Let me use just one example, to be able to follow the restructuring process. This one, number 24, is one institution that is very popular in Kenya, the National Cereals and Produce Board, is also one of the most popular in terms of government subvention and I am sure even for some of the people who have been following in Kenya, even during last year's Consultative Group Meeting with donors, this was a hot issue. But what have we done to restructure this? In the past it had hundreds of buying centers all over the grain growing areas. So what we have done is to try to look at how many buying centers the National Cereal and Produce Board actually does require. I think that is the first thing which was to be restructured. I believe we reduced from maybe five I'm not very accurate on the numbers of the centers because some of them were very small, so we reduced the numbers to very few centers.

[Question: Ms. Kojima]

How many?

[Answer: Dr. Gitu]

I don't want to go to how many because I have not the numbers. We have reduced the buying centers tremendously. Since we have decontrolled the prices of grain, we have introduced the private sector to buy in competition with the Cereals Board. That means before the Cereals Board was the only buyer in the market, and it was also the only seller in the market. We also had movement controls. I believe at one point you could not have moved two 90 kilogram bags from one district to the next. We moved that restriction to 88 bags, but today you can move grains within Kenya without any impedance. You won't have to acquire, to go and report, but you can move the grain as long as you have the trading license for wherever you are taking it. But before you had to get a movement permit. Today you can. So what is happening to the role of the Cereals Board? We are reducing the role of the Cereals Board, first, by reducing the number of buying centers, and second, by introducing the private sector to buy grains. Already that is a reduced role. What is the role of Cereals Board now? It is no longer a marketing board. It is now the custodian of the grain reserves. It is now for food security, not for stabilizing. It is not playing the role of stabilization in this case, so we really have removed some of the functions.

[Question: Ms. Kojima]

How about stabilizing the price?

[Answer: Dr. Gitu]

That actually is now what happens once you introduce reforms. It's actually what backfires. Before the reform, the role of the Cereals Board was to be the custodian of the grain reserves and also a stabilizing mechanism. Today, we have introduced the private sector in grain marketing. Now who is going to play the role of stabilization? I think that is an area that we have to discuss very carefully because if you may know, right now, since we liberalized grains, the price two years ago was 1,400

shilling for a 90 kg bag. Today, the price is 450. For farmers, yes, the price was good, and farmers praised us, yes they wanted grains. The price moved up to 1,400. Today it is 450. And we are also operating in a bumper crop. Who is going to buy the farmer's grains? The argument today is that the government must provide for the National Cereals and Produce Board, from the treasury, the money to buy grains from the farmers. The price which the National Cereals and Produce Board is paying is 950. That means the market price is 450. The government price is 950. The difference between the market and the government's grain price is 500, so this is the amount that the government must put into the Cereals Board so that it is able to buy it, but then, what happens to the government budget? I don't remember who said it, but most things must be right to actually have an effective liberalization. If right now we allow the treasury to give the National Cereals and Produce Boards the amount of money we are talking about, I think it would be calamitous, but we have to do that in order to continue with production next year. If the farmers cannot sell their grains this year, they are not going to plant grains next year. So what do you do? Anyway, I think those are some of the areas we have looked at, and that's just one example of restructuring, just removing some functions in order to improve internal management.

[Question: Ms. Kojima]

When did the National Cereals and Produce Board stop its monopolistic function?

[Answer: Dr. Gitu]

It stopped its monopolistic function in 1993 when we decontrolled the prices were raised and the movement controls. I think the first thing was to remove the movement controls and then the prices, but it is one area that we have to be very careful. I think in Japan, I hear you also deal with rice. And rice is like maize. Maybe it might have some different moral connotation, but when you talk about food security in Kenya, it means

maize. You can give a Kenyan all the meat, but if there is no ugali this is the food made of maize, then there is no food. So the people are attached to maize quite a bit in our country, and it is very, very important.

[Question: Ms. Kojima]

One more question concerning this National Cereal and Produce Board. How was the result after restructuring of this? Has the burden of the government's financial situation improved greatly?

[Answer: Dr. Gitu]

No. Again, this is actually the scenario we went through. We were in a drought situation when we liberalized the National Cereal and Produce Board. We liberalized the prices. We also introduced the private sector to the market; they can go direct to the farm and buy grains. That was very good in 1993. Prices of grains were very high, 14, 15 shillings a bag. In some areas, like in the North, the prices were very, very high. If you know at the structure of Kenya, the North and the East are relatively dry, so the privateers would take grain from the grain producing areas and transport them to the very dry areas. And they would make a lot of money. Come 1994, with the liberalization, the farmers have produced a bumper crop. This is through the liberalization would raise; that is another problem. What has happened? We are actually talking about high levels of subvention by National Cereals to be able to buy and to guarantee that Kenya farmers will continue to produce grains in future. I don't think I can say that grain liberalization has worked, but I think it is very early right now to be able to measure the impact of structural reform. But if we can use that as a short-term measure, obviously, we can say it is not working and more work is required to rethink on how we can move from here.

[Question: Mr. Michio Watanabe]

My name is Watanabe. I work with IDCJ. I'm interested in knowing about who buys the shares of the privatized enterprises. With lack of capital

accumulation among the Kenyans, a major part of share of privatized enterprises might be purchased by foreign companies. So has Kenyan government put any restrictions on the purchase of shares?

[Answer: Dr. Gitu]

There were. Until 12th December last year, there were restrictions, but now I think we have moved up to 20 percent. Foreigners can buy up to 20 percent of the shares now flooding the market. I think that is good. I believe the level, if we are bold about restructuring, then we also have to be bold about who buys. Because if it is left to Kenyans to buy all the parastatals, I think we are incapable of doing it at this time. I don't believe that Kenyan entrepreneurs are in the position to be able to buy the parastatals. I think we need to have a foreign component, and I don't believe it is bad; I think it is very good; I think it is healthy. I would like to see more Japanese businesspersons participating; I would like to see more American businesspersons, but we have to be careful on which areas, and now the public utilities, as Dr. Uchida mentioned, are very important. I think that if we are going to restructure the strategic parastatals, the public utilities, I don't think we should allow foreigners to buy the utilities. I think that we should continue to hold on to utilities, but some component of the shares should be bought by the foreign investors.

[Question: Dr. Takase]

This is a little bit different from a real transforming economy, but this is a very much related tool. That is agricultural land reform. Embassy people told me that the difference of Kenya from other African countries is that land distribution was very well done. In the early part of your independence, 1960-1970, earlier white people's land area is distributed by the people, then after that, 10 years, 20 years, it's very, very good because they are given incentive. So agricultural production in Kenya is one of the best in Africa, but I was told very recently that because of the smaller parcels of the agricultural land is now going to be a problem, like Japan.

We also did, in 1945, after World War II finished, then large agricultural land was distributed to small people. Then at that time, rice production, which was four tons per hectare, jumped up to six tons per hectare. That is because of the farmer incentive. That was very successful. Similar things happened in Kenya, but recently it's very difficult. And Zimbabwe, in comparison, still has very big farmers, and production-wise that is more efficient than the small ones. But from the equity point of view, smaller ones are still better. So I think there are some problems, and this relates indirectly to the price of the product and also farmers' income distribution, and as many people say, that who buys these enterprises -- if nobody buys except the foreigners, the result would be very serious. So if farmers become richer, then they can buy, step by step, those things. This is, of course, long run, and you cannot solve in one sense, but do you have any strategies on land reform further than the present status?

[Answer: Dr. Gitu]

For those who have visited my country, I think the most sensitive issue is land. I don't know what is sensitive in Japan, but in Kenya the most sensitive issue is land. If you are all Kenyans and I sit here and I say we're going to talk about land reform, I'll finish talking and everybody will walk out. This is because it is a sensitive area, but as of two years ago, we have started to think very seriously if from government land that we have to do something about land use intensification. The concept now here is not redistribution of land; it is the utilization of land. But I'd like, myself, to go further and try to support you on looking at the reform beyond because intensification is not a land reform issue; it is actually a use issue. I own it but I don't use it effectively or efficiently. But now, with distribution of land because we have a lot of people in Kenya who are landless. This concept of small, moving from very large to very small is supposed to meet this need of at least owning a title. The concept of title deed -- every Kenyan wants to have a piece of land. And politics, the way it is, but then what actually happens now to utilization of that land? I think it is an issue

of the markets. I think we must seriously think about the land reform both in terms of use and also in terms of distribution if we are going to use the land properly. Kenya needs to reform its land. For example, in the North and in the East, most of the land is not free-marketed, it is owned in common. So somehow we have to introduce private enterprise in land, and I think this is one way of increasing production in land.

[Comment: Dr. Yabuta]

Thank you, Dr. Gitu. I think we have few minutes left, and if there are any person who would like to say something before finishing, the discussion is open to any person here. We have participants not only from universities and think tanks, but also from business community. If you have any question or comment regarding privatization, please raise your hands.

[Question: Mr. Kiyoshi Amada]

My name is Amada. I'm from OECF. I understand that your country is now in the process of privatization, and also you're trying, to some extent, to industrialize your country. I'd like to know whether you have any so-called industrial policy, which means to select some type of industries selectively from all types of industries, heavy industries or labor intensive or light industries. That is my question.

[Answer: Dr. Gitu]

I think your question is very very important. The history of our country is such that we have promoted agricultural production. We have in the past said that agriculture is the backbone of our country. It is very good. I think it is very good if you can feed your people.

But I think one thing that we forgot is that industrialization, complements, agricultural production. They are not competitive; they complement each other. What we are doing now, and we have a very major meeting, a workshop on the 16th of this month that I will attend after I leave here, is that we would like to table in parliament the industrialization strategy for

Kenya. This is where, I hope, those people, who are very familiar with industrialization both in the NICs and in the developed world, will come together and try to find a way to put an industrial strategy that does not compromise the promotion of agricultural production.

This is where we have gone wrong; we have talked about agriculture without realizing that if we have agro-processing policy because agriculture does not just mean producing the commodities; it also means that we can process for value added. Kenya can be better today if we can value add in coffee, in our teas, in our flours, in our milk, because we produce enough milk, if we can value add. But how do we value add. I think it is through industrialization. So we don't actually have a well-defined industrialization policy. And on the 16th, as I have said, we are going to now try to think about how we can industrialize, but we have to use agriculture as the engine for industrialization because we are producing the raw materials.

We would like to start industrialization through small increment industries, such as small farm increments industries, so that we can actually industrialize through agro-processing. In future, I think we can move to man. We are already doing it, but I think the strategy will be good focus on what we have some comparative advantage on. I am sure somebody from Japan. One time I met a student from Japan who told me, "We had no main roads, but we produced vehicles." And I told him, you come to Kenya and tell us how you did it without these other things. Some ability to import, I think it is very important. You have to bring your economy to a level where you actually can import and manufacture for export. And you also must move out of agriculture. And how you do that is making the agriculture efficient and its contribution to development a little bit smaller than the contribution of manufacturing. I think right now agriculture is very high and manufacturing is but high. We need to bring the manufacturing that high in order to surpass agriculture for it really to take off. Maybe I'm wrong, but I feel I'm a student on this one.

[Question: Ms. Miwa Ohkura]

I'm a graduate student from Kyoto. I'd like to ask the other way of successful privatization, which would lead to activating or stimulating the private sector, but how do you see one of the other ways of activating the private sector? I mean the much smaller in scale, the informal sector.

[Answer: Dr. Gitu]

You are very right. Kenya, among African countries and again, I hate to compare, because as one man said, if everyone here is blind and I have one eye, I have to be king, I would have to show you where to go. I think, most Africans in the past have believed that. Kenya is very good, and I think that was the worst thing that happened to us, because whenever I come, say, to Japan, I hear that Kenya is the best in Africa. But we are dying in this country. And Kenya is above the water.

What happened in the sixties is that we started thinking about big industries. And I thought that. That was what went wrong. We started big. What happened in the seventies? People started realizing that smaller industries, whether they are formal or informal, is the way to go. Today, the government is promoting small scale industries in all sectors. Work service sector, and I am through ministry I work with, we have a small scale, and Juakali -- you are familiar with Juakali, people working under the sun, -- so these small-sectors or small-scale sectors or enterprises actually are a major employment generator in the economy. It's also a major factor in employment and income. If we can stimulate the development of these small-scale enterprises to graduate from their informal practices, I think that is actually the way to go. For example, sewing of cloths requires a very minimum kind of tools. I think this is the way to go. I think Kenya ought to promote privatization, through the promotion of small-scale industries, and I think this way you can graduate. Also, we ought to see the small-scale producers of some more raw materials for the big ones. You can integrate small scale and big ones. There are areas where you can use the small-scale to produce the raw

materials to be sold to bigger processing plants. I think that can work, and the government is trying to do that.

Also in terms of job creation, small-scale industries in Kenya right now are more effective in producing jobs as compared with some big-scale industries. I think you'll find that the production of employment is more cost effective in small scale than in large scale; obviously this is based on the level of our economy. But you're quite right. That's one way.

Dr. Chairman, I wanted to ask you about something. I and my government also are students of privatization about some of the success stories, maybe from Japan or from other places that you can recommend Kenya to try, because we are trying, and we don't know. What are some of the successes in Japan and in other countries? Of course most of you are well-traveled; have you any experiences to share? So could someone tell me some of your experiences -- even for five minutes for my own benefit to take home.

[Comment: Mr. Kiyoshi Amada]

I think there is no such kind of model to apply to your country, but I think I can give you one example of a country which is now successful in the transition to the market economy. But I don't know the future. I've studied a bit about Vietnam. That country around late 1970s or early '80s started liberalizing their economy, but they started the liberalization of agricultural commodity prices. Then it was not actually liberalization to raise the retail price of agricultural commodities, but they still kept the wholesale price of agricultural commodities. Then agricultural production rapidly grew up. After that, they had a problem. And I think that your government will get the same problem because the government of Vietnam provided a lot of subsidies to increase agricultural production, as your government is doing now. After that, they tried to stabilize their macro economy to reduce the subsidies and to raise their interest rates, then finally in the early 1990s, now they are almost successful in stabilizing the macro economy. And they are now trying to start to reform the state-

owned enterprises. I cannot give you any good examples of state-owned enterprises reforming, but the story of Vietnam could give you some idea how to manage your country, I think.

[Comment: Dr. Yabuta]

Thank you for your contribution. Dr. Gitu and I would like to listen to many other experiences in privatization in Japan and elsewhere, but I have to say that time is running up.

We hope we will have another time to get together and to discuss about this topic. We really appreciate all the participants here today, and, of course, Dr. Gitu, thank you for creating this very fruitful opportunity of discussion about development and management.

Thank you for everyone. And as a IDCJ staff member, we hope to have theoretically this kind of opportunity of discussion to exchange ideas.

Thank you very much.

**PRIVATIZATION OF PUBLIC ENTERPRISES (PE's)
IN KENYA**

**A Ministerial Working Paper prepared for the
Office of the Director of Planning
MINISTRY OF PLANNING AND NATIONAL DEVELOPMENT**

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TABLE OF CONTENTS

1.0	Introduction	1
2.0	Public Enterprises - <i>A Historical Perspective</i>	2
3.0	The Reasons for Privatization of Public Enterprises in Kenya	4
4.0	Process of Privatization	7
o	Preparation Phase	7
o	Execution	7
5.0	Enterprises to be privatized and the criteria	8
6.0	Current Status of Privatization in Kenya	10
	Appendix 1: Performance indicators of the parastatal sector, 1986 - 1991	12
	Appendix 2: List of parastatals	13
a)	Strategic enterprises to be retained	13
b)	Non-strategic enterprises to be privatized	13

1.0 Introduction

In recent years, different countries have adopted various policy initiatives and actions designed to reverse their declining economic situations. This has particularly been the case in developing countries where internal economic imbalances coupled with the ever worsening external relations have made the situation rather intolerable.

Countries currently carrying out structural adjustment programmes have embraced privatization as a tool for enhancing efficiency in resource allocation and re-alignment of their economies towards greater productivity. The ultimate goal is to reduce the role of the state in economic activities. Cook and Kirkpatrick note that privatization has attracted much attention in recent years, and reflects a world-wide interest in reducing the role of the state in national economies, while enhancing the scope of private ownership and the private sector. The growing appeal for privatization embraces both the ideological desire for smaller government and a belief in the superior economic performance of the private sector¹.

Privatization may seem straightforward, but can be very elusive. A clear understanding of the relevant issues and full preparation of its implementation are paramount if any success is to be expected.

The common approaches to privatization include; one - a process where a change occurs in the ownership of an enterprise (or part of an enterprise) from the public to the private sector (Cook and Kirkpatrick, 1988), little else considered. Two - privatization may involve removal of restrictions that hinder participation of private enterprises in activities previously reserved for public sector enterprises with an intention of increasing the role of competition. Note that a change in ownership needs not take place. Three - privatization will still have occurred where the provision of a good or service is transferred from public to private sector, while government retains [the] ultimate responsibility for supplying the service (Cook and Kirkpatrick, 1988)².

Like elsewhere in developing countries, the Government of Kenya has, for the past few years, undertaken the initial stages to divest its interest in the ownership or equity operation in certain (non-strategic) enterprises. The privatization process commenced in July 1992 when the Government published

¹ See "Privatization in Less Developed Countries: *An Overview*" by Paul Cook and Colin Kirkpatrick, *Wheatshief Books - Sussex, 1988*.

² Franchising, or contracting-out, of public services and the leasing of public assets to the private sector are examples of this form of privatization (Cook and Kirkpatrick, 1988).

a policy paper to guide the privatization and parastatal reform programme. Some 207 non-strategic public enterprises were identified for privatization or liquidation while the remaining 33 (strategic enterprises) were to be retained but restructured to enhance their efficiency³.

Sections 2.0 and 3.0 respectively outline the history of public enterprises in Kenya and the specific reasons for the need to divest from those that have been targeted. Broadly, divestiture from the listed public enterprises aims at alleviating the budgetary burden imposed on government or public resources and enhancement of their efficiency (it is hoped) through private sector participation.

The rest of this paper explores the process - preparation and execution - of privatization in the country since its inception, and the criteria followed in selecting the private enterprises to be privatized. Appendix 2 provides the list of public enterprises targeted for privatization. The last section provides the current status of privatization in Kenya.

2.0 Public Enterprises - *A Historical Perspective*

The emergence of state enterprises or parastatals in Kenya has been a result of the perceived role the state had to play in achieving national development. During the colonial era, the state featured prominently in Kenya's political, social and economic affairs.

With the advent of independence, new bureaucratic structures were erected to undertake functions in areas in which the colonial state had negligible involvement. Besides traditional government services of maintenance of law and order, extraction of revenue and regulation of the economy, the post-independence state started to expand its activities into the socio-economic spheres.

Promise made by nationalist leaders during independence struggle, as a means of rallying support behind the independence cause, had now to be honoured. Conglomerates of Kenyans arbitrarily and involuntarily brought together posed a serious dilemma for the new nation state. Ethno-cultural development and linguistic, religious and political differences had to be accommodated at the same time nation building objectives were pursued.

All of the foregoing opened up immense opportunities for government intervention. Likewise, the private sector's lack of means, both in financial

³

See "Sessional Paper No. 1 of 1994: *Recovery and Sustainable Development to the Year 2010*". Government Printer, Nairobi.

capital and entrepreneurial skills, to undertake the tasks of development became a reason for advocating increased government intervention to tackle Kenya's state of underdevelopment⁴. Reliance on government planning was readily accepted. To meet the resource needs of development, saving constraints had to be overcome, meaning reliance on taxation and financial intermediation as strategies for resource mobilization. The weakness of financial markets in Kenya during this period provided the rationale for government intervention. The desire to accelerate industrialization led to import substitution strategies. The need to protect the infant industries led to government intervention to ensure erection and protection of protective barriers.

To fulfil the promise for improved welfare for all Kenyans made during the independence struggle, called for measures aimed at the elimination of poverty, ensuring fair or equitable distribution of income and stimulating employment as critical goals of national development. Each of the above strategies required increased role of the government in the economy.

The recognition of the weakness of the private sector and unlikelihood of its investing in areas that did not satisfy favourable locational considerations meant that it could not be relied upon as an instrument for bringing about balanced regional development. This recognition meant that the government had to invest in areas neglected by the private sector.

National security considerations were also invoked as a rationale for government intervention in the control and production of strategic goods and services⁵. State enterprises (parastatal) mushroomed in all sectors enabling the government to exercise control over all conceivable areas of the economy.

3.0 The Reasons for Privatization of Public Enterprises in Kenya

First a few generalizations. In developing countries, public enterprises are found in almost all types of economic activities (Cook and Kirkpatrick, 1988) with a high concentration in public utilities, natural resources and manufacturing sectors. Establishment of public enterprises has hitherto been justified mainly on the ground that direct government participation in productive activities could

⁴ Traditionally, there appeared a reluctance to spin activities out of direct public control, a reluctance linked both to the protection of status quo benefits and to concern over the ability of private enterprise to respond to and serve the public interest (Willig, 1993)

⁵ National security considerations is still invoked in government's control of the so called "strategic parastatal".

correct some specific forms of market imperfections⁶.

However, since there are alternative mechanisms for correcting market failure other than through public ownership, there is no strict reason for government intervention in economic activities⁷. Indeed, as has been found out in some empirical studies, public sector investment can lower private investment if it utilizes scarce resources that would otherwise be available to the private sector (Cook and Kirkpatrick). This is the crowding out hypothesis that has been tested in some developing countries⁸.

Turning to Kenya's case, the public sector's performance and productivity over the years has been disappointing and hence the necessity for the government's decision to divest from it. The World Bank estimates that the parastatals' value added grew at a dismal 0.5 percent annually between 1986 and 1990, compared with the overall GDP growth of 5 percent annually over the same period⁹. Secondly, based on a sample of parastatals and private enterprises, it is estimated that total factor productivity growth during the same period was negative for the parastatal sector, compared with 5.4 percent for the private sector, while growth of capital inputs was twice as high (World Bank, 1994:223). Specifically, a wide range of institutional and managerial flaws have beset the parastatal sector for a long time. These include:

- o excessive control and political interference;
- o managerial incompetence;
- o low integrity and incompetence of some board of directors;
- o managerial corruption;
- o in certain instances, poor personnel policies and practices, including overstaffing, high staff turnover, poor job definition, etc;

6 Such as indivisibilities, economies of scale, monopoly and externalities. There are several additional reasons for the establishment of public enterprises. See, for example, Cook and Kirkpatrick, 1988:7.

7 Market failure could be corrected through use of regulatory controls, legal restraints, taxes, transfers or subsidies, bans, etc. See for example the article by Hemming, R and Mansoor, A. M (1987), on "Privatization and Public Enterprises": *IMF Working Paper*, WP/87/9, 25 February, Fiscal Affairs Department.

8 See Blejer, M and Khan, M. S., 1984 in an article entitled: Government Policy and Private Investment in Developing Countries; *IMF Staff Working Papers*, Vol. 31.

9 See: Adjustment in Africa: *Lessons from Country Case Studies*, World Bank, 1994.

- o ineffective practice of strategic management;
- o impact of external factors beyond the control of management, including price fluctuations in international markets, often defective macro-economic policies and sometimes unclear government objectives;
- o inadequate fiduciary responsibility to the government as the owner of parastatals;
- o poor industrial relations;
- o sometimes, poor feasibility studies and location of enterprise;
- o inability of parastatals to respond to inadequate infrastructure support; and
- o untimely financial reporting.

Additionally, there were other inherent problems, of a fiscal and financial nature, in the sector¹⁰:

- o excluding the profits of the central bank, net inflows to the central government budget were either significantly negative (-0.9 to -1.1 percent of GDP) or near zero;
- o the sector accounted for more than a third of the government's net lending and equity operations and contributed little to revenue;
- o the sector ran a net trade deficit of 28 percent of the total trade deficit;
- o while the sector did not greatly increase the external debt and debt service burden, the efficiency with which the funds were used is at issue;
- o the government often assumed the debt and debt servicing obligations of parastatals which often borrowed externally without clearance from the treasury;
- o although the parastatal sector does not appear to have imposed a big burden on the banking system, the sector's demand on or lack of

¹⁰ Adjustment in Africa: *Lessons from Country Case Studies*, World Bank, 1994.

contribution to budgetary revenues indirectly increased the government's own budget deficit and its demand for credit¹¹; and

- o the parastatal sector strengthened the monopolistic and oligopolistic structure of industry¹².

Appendix 1 details out the performance indicators of the parastatal sector for the period 1986 to 1991.

4.0 Process of Privatization

The divestiture process has been set to involve two distinct phases: preparation and execution.

- o Preparation Phase

This phase entails a detailed review of operational, financial and legal issues in order to determine its current condition, strengths, weaknesses, potential, and financial restructuring requirements, if any. Next is the construction of a computerised operational and financial model for the enterprise to project likely results and their expected variances under various scenarios. These steps lead to the valuation of the enterprise as a going concern, which forms the basis for establishing a range of values that can be used in negotiations with prospective investors and in setting the share price for a public offering.

For comparative purposes, an asset valuation would be necessary to ascertain the value from both a replacement and a liquidation perspective. This phase also includes a preliminary determination of prospective investor groups, and concludes with a preparation of a "privatization action plan" that fully documents the results of all the analysis conducted up to this stage. The action plan also includes a detailed set of recommendations on how to proceed to execute the transaction. At this stage, a full review and approval of the analysis that has been conducted as well as the contents of the action plan can be done.

11 Close ties seemed to exist between parastatals and distressed banks - the latter held an estimated 85 percent of all parastatal deposits (World bank, 1994:224).

12 Monopolies were usually parastatal firms granted such power through legislation or administrative decree. In addition, parastatals were often protected by higher tariffs, effective (although not officially gazetted) prohibition on competing imports, and ad hoc exemptions on import duties on capital and intermediate goods.

o Execution

This is the second and final stage which entails implementation of the transaction. By this stage, all key decision-makers will have approved the privatization action plan. Tasks to be performed during this stage include, where necessary, the preparation of the sales documentation (eg prospectus, information memorandum), completion of any financial and operational restructuring required prior to divestiture, resolution of all outstanding legal issues that affect the sale, the design and implementation of a public relations campaign to inform the public of the impending sale, and finally execution of the sale itself.

The fine details of the two phases is contained in the Government Policy Paper on Public Enterprise Reform and Privatization (GoK, 1992:16-21).

5.0 Enterprises to be Privatized and the Criteria

Non-strategic enterprises or part(s) of enterprises are those that are not vital to national security/contingency and/or do not provide essential goods and services. Under the privatization programme, viable non-strategic enterprises are sold whereas non-viable ones are liquidated/divested from by the Government.

In July 1992, 207 non-strategic and commercially oriented enterprises were identified for privatization. The Government held equity in these enterprises either directly or indirectly through Industrial and Commercial Development Corporation (ICDC), Industrial Development Bank (IDB), Kenya Tea Development Authority (KTDA), Kenya Tourism Development Corporation (KTDC) and other entities (See Appendix 2). The first phase of privatization selected 45 enterprises leaving 162 to be processed for subsequent privatization (See appendix 2).

The following selection criteria were used:

- i Majority Government Ownership. Here preference is given to privatizing firms in which Government has a majority ownership.
- ii Minimal Restructuring. Priority is given to Public enterprises that do not require extensive operational, financial and legal requirements prior to privatization.
- iii Profitability. Preference is given to firms that have generated an operating profit (before depreciation and debt service) for at least the last

two years. The other indicators that are considered are rate of return on assets and equity, inventory turnover and debt to equity ratio.

- iv Sector Diversity. Enterprises are to be drawn from the diverse sectors of the economy.
- v Available and Reliable Enterprise Data. Operational and financial records and accounts should be reasonably accurate, up-to-date and readily available to the Privatization Implementation Team (PIT) and potential investors.
- vi Minimal Regulatory Adjustments. The initial list of Public Enterprises does not include those that require time consuming and costly regulatory adjustment prior to privatization as in the case of monopolies.
- vii Minimal Redundancies. Preference given to those enterprises that will create less lay-offs especially in the initial stages before a fully funded safety net is in place.
- viii Reduction in Budgetary Drain. Those enterprises that have substantial Treasury support will be considered for dilution of ownership together with management and financial restructuring pending full divestiture.

6.0 Current Status of Privatization in Kenya

The number of public enterprises to be privatized stands at 207 out of a total of 240. Of the candidates due for privatization, 6 have been taken through liquidation; 7 have been through receiverships; 20 through pre-emptive right sales; 5 each through public flotations and sales by competitive bidding respectively. Below is appended a list of completed/concluded divestures by mode of privatization.

- a) Liquidations (2.9 percent of preliminary total = 207 parastatals).
 - Nakuru Chrome Tanning Co. Ltd
 - Kenya Peanut Co. Ltd
 - BAT Development (K) Ltd
 - Town Properties
 - Kenya Horse Studs Ltd
 - Kenatco Transport Ltd
- b) Receiverships (3.4 percent of preliminary total = 207 parastatals).
 - Nairobi Oil Products Ltd

- Tiger Shoes Ltd
- Yuken Textile Ltd
- Sirikwa Hotel Ltd
- Kenya Drilling Co. Ltd
- Kisumu Cotton Mills Ltd
- Seracoatings (K) Ltd

c) Pre-emptive Right Sales (10.0 percent of preliminary total = 207 parastatals).

- Tea Hotel Kericho
- General Motors (K) Ltd
- Highlands Paper Mills Ltd
- Mount Kenya Textiles Ltd
- Y-Fashions
- Panafric Hotel Ltd
- Robinson Baobab Hotel Ltd
- Avon Marketing Ltd
- Avon Rubber Co. Ltd
- Avon Exports Ltd
- Nestle Foods (K) Ltd
- Pullmans Tours & Safaris Ltd
- Salt Manufacturing (K) Ltd
- Firestone (EA) Ltd
- Chloride Exide (K) Ltd
- Associated Battery Manufactures Ltd
- Kenya Fishnet Industries Ltd
- CPC Industrial Products Ltd
- Kenya Cashewnuts Ltd
- African Marine and General Engineering Co. Ltd

d) Public Flotations (2.4 percent of preliminary total = 207 parastatals).

- Bamburi Portland Cement Co. Ltd
- Housing Finance Company of Kenya Ltd
- Uchumi Supermarkets Ltd
- EA Oxygen Ltd
- CMC Holdings

e) Sales by Competitive Bidding (2.4 percent of preliminary total = 207 parastatals).

- ESA Bookshop
- Mutuality Investment Trust (Golden Beach Hotel)
- African Diatomite Industries Ltd

- Nepal Plastics (K) Ltd
- Milling Corporation of Kenya Ltd

For a comprehensive list of parastatals, see Appendix 2 containing all parastatals categorised as "strategic" and "non-strategic" enterprises.

Appendix 1: **PERFORMANCE INDICATORS OF THE PARASTATAL SECTOR, 1986 - 1991**

a)	<u>Efficiency Indicators</u>	<u>Value</u>
	Total Value Added (annual %)	0.5
	Value Added in Manufacturing (annual %)	-0.1
	Change in Total Factor Productivity (Annual %)	-1.7
	Growth Rate of Labour Use/Growth Rate of Labour in Private Sector (ratio)	0.6
	Growth Rate of Capital Inputs/Growth Rate of Capital Inputs in private sector	2.1
b)	<u>Relationship to budget and External Account</u>	
	Net Lending and Equity to Parastatals/Overall	
	Net Lending by Government (%)	35.4
	Profits, Interest, and Dividend Payments/ Tax Revenue (ratio)	3.7
	Parastatal External Debt/Public and Publicly Guaranteed Debt (1990; %)	17.0
	Parastatal External Debt Servicing/Total (1990; %)	25.5
	Net Exports of Parastatals/Total Net Exports (%)	-27.9
c)	<u>Relationship to Banking System and Near-Bank Financial Intermediaries</u>	
	Parastatal Deposits/Total Commercial Bank Deposit (ratio)	6.7
	Parastatal Deposit/Total Near-Bank Financial Intermediaries Deposit (ratio)	10.0
	Parastatal Credit/Commercial Bank Credit (ratio)	6.0
	Parastatal Credit/Near-Bank Financial Intermediaries Credit (ratio)	1.3

Source: Table 5.7: Adjustment in Africa: *Lessons from Country Case Studies* (World Bank, 1994:224).

Appendix 2: LIST OF PARASTATALS

a) STRATEGIC ENTERPRISES TO BE RETAINED

1. Agricultural Development Corporation
2. Agriculture Finance Corporation
3. Development Finance Company of Kenya
4. Development House Ltd. (AFC)
5. East African Development Bank
6. Industrial Development Bank of Kenya Ltd.
7. Industrial & Commercial Development Corporation
8. Jomo Kenyatta Foundation
9. Kenya Broadcasting Corporation
10. Kenya Industrial Estate Ltd.
11. Kenya Literature Bureau
12. Kenya Petroleum Oil Refineries
13. Kenya Pipeline Co. Ltd.
14. Kenya Ports Authority
15. Kenya Post Office Savings Bank
16. Kenya Posts and Telecom. Corporation
17. Kenya Power Co. Ltd.
18. Kenya Power & Lighting Co. Ltd.
19. Kenya Railways Corporation
20. Kenya Seed Co. Ltd.
21. Kenya Tea Development Authority
22. Kenya Tourist Development Corporation
23. Kenya Veterinary Vaccine Production Institute
24. National Cereal & Produce Board
25. National Housing Corporation
26. National Oil Corporation of Kenya
27. Nyayo Buses Corporation
28. Nyayo Tea Zones Development Authority
29. Post Bank Credit Ltd. (LIQ)
30. Rehabilitation Advisory Services Ltd.
31. School Equipment Production Unit
32. Small Enterprise Finance Co. (SEFCO)
33. Tana River Development Co. Ltd.

b) NON-STRATEGIC ENTERPRISES TO BE PRIVATIZED

1. African Diatomite Industries Ltd.
2. African Marine General Engineering co. Ltd.
3. African Tours and Hotels Ltd.
4. Agro-Chemical and Food Corporation
5. Ark Ltd.
6. Associated Battery Manufacturers Ltd.
7. Associated Vehicle Assembly Ltd.
8. Avon Export Ltd.
9. Avon Marketing Ltd.
10. Avon Rubber Co. Ltd.
11. Bamburi Portland Cement Co. Ltd. (Div)
12. Bomas of Kenya Ltd.
13. Booth Manufacturers Ltd.

14. Brollo Kenya Ltd.
15. Bufallo Springs Lodge Ltd.
16. Busia Hotels Ltd.
17. B.A.T. Development (K) Ltd. (D)
18. Chebut Tea Factory Ltd.
19. Chemilil Sugar Co. Ltd.
20. Chinga Tea Factory Ltd.
21. Chloride Exide (K) Ltd.
22. Clarkson Notcutt Ltd.
23. Consolidated Bank of Kenya Ltd.
24. C.M.B. Package Ltd. (Ex Metal Box)
25. C.M.C. Holdings Ltd.
26. C.P.C. Industrial Products Ltd.
27. Dawa Pharmaceuticals Ltd.
28. East Africa Industries Ltd.
29. East African Fine Spinners Ltd.
30. East African Oxygen (Kenya) Ltd.
31. East African Portland Cement Co. Ltd.
32. East African Sugar Industries Ltd.
33. Embu Hotel Ltd. (Izaak Walton Inn)
34. Eston Plastics of Kenya Ltd.
35. Everready Batteries Ltd.
36. ESA Bookshop Ltd.
37. Firestone (E.A.) Ltd.
38. Galana Game Ranching Ltd.
39. Game Lodges Ltd.
40. Gathuthi Tea Factory Ltd.
41. Gatunguru Tea Factory Ltd.
42. General Motors (Kenya) Ltd.
43. Githambo Tea Factory Ltd.
44. Githongo Tea Factory Ltd.
45. Gitugi Tea Factory Ltd.
46. Golf Hotel Ltd.
47. Grindlays Bank International (K) Ltd.
48. Highlands Paper Mills Ltd.
49. Hola Ginnery Ltd.
50. Homa Bay Hotel Ltd.
51. Horti Seed Co. Ltd.
52. Hotel Investors Ltd.
53. Hotel Span Ltd.
54. Housing Finance Company of Kenya Ltd.
55. ICDC Investment Co. Ltd.
56. Ikumbi Tea Factory Ltd.
57. Imenti Tea Factory Ltd.
58. Industrial Promotion Services Ltd.
59. Infusion Kenya Ltd.
60. International Hotels (Kenya) Ltd.
61. Iriani Tea Factory Ltd.
62. Kabarnet Hotel Ltd.
63. Kagwe Tea Factory Ltd.
64. Kambaa Tea Factory Ltd.
65. Kangaita Tea Factory Ltd.
66. Kanyenyaini Tea Factory Ltd.
67. Kapkoros Tea Factory Ltd.

68. Kapsset Tea Factory
69. Kebirigo Tea Factory Ltd.
70. Kenatco Taxis Ltd.
71. Kenchic Ltd.
72. Kencom House Ltd.
73. Kenya Airfreight Handling Co. Ltd.
74. Kenya Airways Ltd.
75. Kenya Bixa Ltd.
76. Kenya Bowling Centres Ltd.
77. Kenya Breweries Ltd.
78. Kenya Cashewnuts Co. Ltd.
79. Kenya Chemical & Food Corporation (R)
80. Kenya Coffee Auctions Ltd.
81. Kenya Commercial Bank Ltd.
82. Kenya Commercial Finance Corporation
83. Kenya Cooperatives Creameries Ltd.
84. Kenya Drilling Co. Ltd.
85. Kenya Engineering Industries Ltd.
86. Kenya Fibre Corporation Ltd. (R)
87. Kenya Film Corporation
88. Kenya Fishnet Industries Ltd.
89. Kenya Flamingo Airways Ltd.
90. Kenya Flourspar Co. Ltd.
91. Kenya Fruit Processors Ltd.
92. Kenya Funfural Ltd. (R)
93. Kenya Grain Grower Cooperative Union
94. Kenya Horse Studs Ltd.
95. Kenya Hotel Properties Ltd.
96. Kenya Industrial Plastics Ltd.
97. Kenya Meat Commission
98. Kenya National Assurance co. Ltd.
99. Kenya National Capital Corporation
100. Kenya National Properties Ltd.
101. Kenya National Shipping Lines
102. Kenya National Trading Corporation
103. Kenya Peanut Co. Ltd.
104. Kenya Reinsurance Corporation
105. Kenya Re-Properties Ltd.
106. Kenya Safari Lodges & Hotels Ltd.
107. Kenya Seed Driers' Co. Ltd.
108. Kenya Shipping Agency Ltd.
109. Kenya Taitex Mills Ltd.
110. Kenya Tea Packers Co. Ltd. (KETEPA)
111. Kenya Vehicle Manufacturers (ex-Leyland)
112. Kenya Wine Agencies Ltd.
113. Kerio Valley Ginnery Ltd.
114. Kiamokama Tea Factory Ltd.
115. Kibos Ginnery Ltd.
116. Kiegot Tea Factory Ltd.
117. Kimunye Tea Factory Ltd.
118. Kinoro Tea Factory Ltd.
119. Kisii Bottlers Ltd.
120. Kisumu Cotton Mills Ltd. (KICOMI)
121. Land Limited

122. Lion Hill Camp Ltd.
123. Litein Tea Factory Ltd.
124. Loncom Ltd.
125. Makomboki Tea Factory Ltd.
126. Makueni Ginnery Ltd.
127. Malindi Fruit Processors Ltd. (D)
128. Maralal Safari Lodge Ltd.
129. Marsabit Lodge Ltd.
130. Mataara Tea Factory Ltd.
131. Mepal Plastics Ltd.
132. Meru Ginnery Ltd.
133. Meru Mulika Lodge Ltd.
134. Milimani Hotels Ltd.
135. Milling Corporation of Kenya Ltd.
136. Minet ICDC Insurance Brokers Ltd.
137. Mogogosiek Tea Factory Ltd.
138. Motor and Pedal Cycles Ltd.
139. Mountain Lodge Ltd.
140. Mt. Elgon Lodge Ltd.
141. Mt. Kenya Bottlers Co. Ltd.
142. Mt. Kenya Textile Mills Ltd. (MOUNTEX)
143. Mumias Sugar Co. Ltd.
144. Mungania Tea Factory Ltd.
145. Mutuality Investment Trust Ltd.
146. Mwea Ginnery Ltd.
147. Mwea Rice Mills Ltd.
148. Nairobi Oil Products Ltd. (R)
149. Nakuru Chrome Tanning Co. Ltd (VL)
150. NAS Airport Services Ltd.
151. National Printers and Publishers Ltd.
152. National Bank of Kenya Ltd.
153. National Agricultural & Chemical Fertilizer Corporation (D)
154. Ndimba Tea Factory Ltd.
155. Nestle Food (K) Ltd.
156. Njunu Tea Factory Ltd.
157. Notcutt Longaroni Ltd.
158. Nyamanche Tea Factory Ltd.
159. Nyankoba Tea Factory Ltd.
160. Nyansiongo Tea Factory Ltd.
161. Nzoia Sugar Co. Ltd.
162. Ogembo Tea Factory Ltd.
163. Pan Vegetable Processors Ltd.
164. Panafrie Hotel Ltd.
165. Panafrican Paper Mills (E.A.) Ltd.
166. Pearl Dry Cleaners Ltd.
167. Pollman's Tours and Safari Ltd.
168. Polysynthetic E.A. Ltd.
169. Ragati Tea Factory Ltd.
170. Raymond Woollen Mills Ltd.
171. Rift Valley Bottlers Ltd.
172. Rift Valley Textile Mills (RIVATEX)
173. Robinson Hotels (Msa) Ltd.
174. Rukuriri Tea Factory Ltd.
175. Safari Lodges & Properties (K) Ltd.

- 176. Salt Manufacturers (K) Ltd.
- 177. Sanyanyi Tea Factory Ltd.
- 178. Sanyo Armco Ltd.
- 179. Savings and Loan (K) Ltd.
- 180. Seracoatings Kenya Ltd. (R)
- 181. Simpson and Whitelaw Ltd.
- 182. Sirikwa Hotel (Kenya) Ltd.
- 183. Sokoro Fibre Boards Ltd.
- 184. Sonotels (K) Ltd.
- 185. South Nyanza Sugar Co. Ltd.
- 186. Sunset Hotel Ltd.
- 187. Synthetic Fibre (K) Ltd.
- 188. Tegat Tea Factory Ltd.
- 189. The Tea Hotel, Kericho
- 190. Theta Tea Factory Ltd.
- 191. Thika Cotton Mills Ltd.
- 192. Thumaita Tea Factory Ltd.
- 193. Tiger Shoes Co. Ltd.
- 194. Tombe Tea Factory Ltd.
- 195. Tourism Promotion Services
- 196. Town Properties Ltd.
- 197. Transport and Tourism Services
- 198. Uchumi Supermarkets Ltd.
- 199. United Finance Company of Kenya
- 200. Uplands Bacon Factory (R)
- 201. Utalii Investment Co. Ltd.
- 202. Wananchi Saw Mills Ltd.
- 203. Warehouse & Forwarding Co. Ltd. (WAFCO)
- 204. Wedco Ltd.
- 205. Wire Products Ltd.
- 206. Yuken Textiles Ltd. (R)
- 207. Y-Fashions Ltd.

Note

- (R) - In Receivership
- (D) - Dormant Company not trading
- (Div) - Divested



